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MUNITIONS INDUSTRY

HEARINGS

BEFORE THE

SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY
UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

SECOND SESSION

PURSUANT TO

S. Res. 206

(73d Congress)

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

PART 27

JANUARY 13 AND 14, 1936

WORLD WAR FINANCING 1915
NEUTRALITY 1914-1917

J. P. MORGAN & COMPANY

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[1] Previously discussed in Hearings, Part XXVI, p. 7873 et seq.

NOTE.—Accounts and various financial data relating to the subject matter herein discussed will be found among "Exhibits Nos. 4202 through 4205, 4213, and 4214", Hearings, Part XXXIII; "Exhibit No. 4217", Hearings, Part XXXIV; and "Exhibits Nos. 4220, 4221, 4226, and 4229", Hearings, Part XXXV.

INVESTIGATION OF MUNITIONS INDUSTRY

MONDAY, JANUARY 13, 1936

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in the Caucus Room, Senate Office Building, pursuant to adjournment, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary, and Lawrence Brown, financial assistant to Committee, and Robert Wohlforth, assistant to the secretary.

The Chairman. The committee will be in order. Mr. Brown, you may proceed at this time.

TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, AND GEORGE WHITNEY—Resumed

ANGLO-FRENCH LOANS OF 1915 [1]

Mr. Brown. There are a few little details——

Mr. Lamont. Mr. Chairman, before Mr. Brown proceeds, may I be permitted to read into the record photostats of newspaper clippings that bear upon one phase of the examination on Thursday?

The Chairman. These are clippings of that date?

Mr. Lamont. No; newspaper clippings dating back to August 9 and 10, 1915.

The Chairman. That is what I mean.

Mr. Lamont. Yes; quite.

The Chairman. All right.

Mr. Lamont. Because there was a good deal of discussion, you will recall, in regard to Mr. Davison's visit with Secretary McAdoo in regard to the question of exchange. The impression was created that it followed more or less the break in exchange.

The Chairman. In that connection, Mr. Lamont, when Mr. Davison called upon Mr. McAdoo, was there anything more than one thing that Mr. McAdoo could have done, that would have been in response to what appeared to be the need at that time?

Mr. Lamont. I cannot answer that, Senator. May I try to answer it in part by reading this?

The Chairman. All right.

---

[1] For previous discussion of this subject see Hearings, Part XXVI, p. 7873 et seq.

Mr. **Lamont**. Thank you so much. This is from the New York American of August 10, 1915 [reading]:

> Wall Street was deeply interested yesterday in the visit to the financial district of Secretary McAdoo and W. P. G. Harding, of the Federal Reserve Board * * *

Then it goes on to say [reading]:

> Secretary McAdoo made his headquarters at the Subtreasury, where he conferred with Henry P. Davison of J. P. Morgan & Co.

The other clipping is from the Evening Telegram, in which it says:

> One of the principal financiers with whom he was in conference was Henry P. Davison, of the firm of J. P. Morgan & Co. Mr. McAdoo invited Mr. Davison to call on him at the Subtreasury.

This came about on August 9, whereas the withdrawal of the support of the exchange did not occur, as I recall it, Mr. Whitney, until August 13.

Mr. **Whitney**. Fourteenth.

Mr. **Lamont**. Fourteenth. I think it is of some interest to show just how this interview came about, at Mr. McAdoo's own invitation.

Mr. **Brown**. Was there any other meeting with Mr. Davison, Mr. Lamont?

Mr. **Lamont**. Evidently not. Until we looked up the public-press record, you will recall we had no record of the thing. It just said there had been a meeting.

Mr. **Brown**. Just to keep the record straight, you said after the break you were sending word to the Secretary of the Treasury.

Mr. **Whitney**. You will remember, Mr. Brown, that on August 18 we wired, that following a conference Mr. Davison had had with Mr. McAdoo, we had that day sent word to Mr. McAdoo of the serious state of the exchange.

You questioned us a good deal heretofore as to how, when, and where Mr. Davison had the interview, so that when we went home on Saturday, we tried to check up, because our records had nothing in regard to it. We found that Mr. Davison saw Mr. McAdoo, at Mr. McAdoo's invitation, on the 9th day of August.

On the 11th of August we cabled London that we thought that we ought to keep some slack against a severe break. On the 13th, as you will remember, we bought roughly $7,500,000 worth of exchange, which left about $7,500,000, and on the 14th they instructed us to stop selling.

So that this talk with Mr. McAdoo was not afterward, chronologically, but was before there had been quite such a severe break. The exchange on the 9th was 4.74 and broke to 4.71 on the 13th.

And just to get you chronologically right, this talk to which the cable of the 18th referred, according to the public press, was on the 9th of August, and was held at Mr. McAdoo's invitation.

Mr. **Brown**. That was the meeting with regard to acceptances, if you will recall, which will come up later.

Mr. **Whitney**. You have got the advantage of us because we do not know what it was about.

Mr. **Brown**. There was a meeting at the Subtreasury about acceptances.

Mr. LAMONT. How do you know that there was a meeting at the Subtreasury about acceptances?

Mr. BROWN. It will come up in passing. It was discussed in the long letter of Secretary McAdoo, in the record. After the break you stated to the Secretary of the Treasury that you regarded the exchange situation as serious, and yet you said you stopped selling.

Mr. WHITNEY. Stopped buying.

Mr. BROWN. You said you stopped selling.

Mr. WHITNEY. Excuse me. We stopped buying sterling and bought dollars.

Mr. BROWN. You continued selling sterling, did you not?

Mr. WHITNEY. Where?

Mr. BROWN. On the commercial agency, for some days.

Mr. WHITNEY. I do not want——

Mr. BROWN. You continued selling sterling. It was all brought out after the break the other day.

Mr. WHITNEY. The last day we did it was the 13th of August.

Mr. BROWN. It was the other way around, Mr. Whitney. You stopped buying sterling on the 13th of August, but you did not stop selling sterling on the 13th of August. You continued selling sterling for several days into August, a week, at least. That will come out in another item.[1]

Mr. LAMONT. The point, Mr. Chairman, of these clippings, the point of putting them into the record, is to show that the public was being made fully aware of what was going on. That is the point. They were being kept informed of these facts from day to day. Will you mark those?

Mr. BROWN. The full awareness of those to the public in that manner does not include your suspension of exchange support, does it, Mr. Lamont?

Mr. LAMONT. Yes.

Mr. BROWN. You mean, from the clippings?

Mr. LAMONT. It may not include that, but Mr. Whitney has some clippings here, showing the attitude or knowledge of the public press all during July, as to the weakening of the exchange.

Mr. BROWN. That is true, but not that you had withdrawn from the market?

Mr. LAMONT. Mr. Brown, everybody in Wall Street knew the moment that J. P. Morgan & Co. were not buying or selling exchange. There was no secret there.

Mr. BROWN. Will you find the clippings for the record, showing that it was known in financial circles that J. P. Morgan & Co. had withdrawn from the financial market?

Mr. WHITNEY. I do not believe we could.

Mr. LAMONT. That attitude is known and cannot help but be known.

Mr. BROWN. I have read the English newspapers with great care at that time, and there is no reference with regard to any actual withdrawal from the market.

Mr. LAMONT. The English papers?

---

[1] See "Exhibit No. 4220", Hearings, Part XXXV, showing credits of $12,604,125 against £2,700,000 over London. This appears not to have been a sale of sterling in New York but a purchase of dollars in London, having a similar effect on the sterling rate.

Mr. **Brown**. The English financial papers.

Mr. **Lamont**. That is not surprising.

Mr. **Brown**. If this were known in New York, it would be known in England.

Mr. **Lamont**. You mean the British financial papers?

Mr. **Brown**. I mean the British financial papers.

Mr. **Lamont**. Excuse me, Mr. Brown, but the British financial papers were concerned at that time primarily with the domestic financing.

Mr. **Brown**. They were terribly concerned about the American exchange.

Mr. **Lamont**. You have looked up the British papers and I have not, but that does not bear on the situation.

Mr. **Brown**. Supposing we go on.

Mr. **Lamont**. Quite.

Mr. **Whitney**. May I put in these clippings, Mr. Brown, or Mr. Chairman, which just show that beginning July 29, right on through, and even beginning as early as July 3, the weakness of the exchange and the apparent danger to American export trade which is emphasized? There are four of them.

Way back on July 3 Davies, who was chairman of the socalled English Exchange Committee, is quoted here in the Chronicle as stating:

> I consider the best way for American exchange to be righted will be by Americans subscribing liberally to the new war loan, the exchange being at present something like 2 percent in favor of America on such an operation; or by Americans granting about $500,000,000 of credit to Great Britain.

In other words, the Chronicle in New York on July 3, 1915, already raised the question of necessity of credits to keep exchange steady.

The **Chairman**. Let the clippings be received for the record.

(The six clippings referred to were marked, respectively, "Exhibits Nos. 2279, 2280, 2281, 2282, 2283, and 2284", and are included in the appendix on pp. 8285–8288.)

The **Chairman**. Proceed, Mr. Brown.

Mr. **Brown**. At the end of the session on Friday mention was made of the ruling of the Comptroller of the Currency. This is contained in a letter which I offer for the record from John Skelton Williams, the Comptroller, to the Mechanics and Metals National Bank, in which he says [reading]:

> In reply you are informed that this office has been advised by counsel that governments are not "corporations" or "persons" within the meaning of section 5200, and that investments made by national banking association in Government securities, such as Government bonds, in excess of 10 percent of the unimpaired capital and surplus of the association, would not be in violation of that section.

(The document referred to was marked "Exhibit No. 2285" and is included in the appendix on p. 8290.)

Mr. **Brown**. I offer also the answer of Mr. McHugh, apparently, of the Mechanics and Metals Bank, dated September 29, 1915.

(The document referred to was marked "Exhibit No. 2286" and is included in the appendix on p. 8291.)

Mr. **Brown**. That was a great aid in floating that loan, was it not, that ruling of the Comptroller?

Mr. **Lamont.** It was undoubtedly a favorable ruling, Mr. Brown; undoubtedly.

Mr. **Brown.** I mean, it made it a great deal easier to sell the loan, to be able to sell a great deal more than the capital and surplus to a national bank?

Mr. **Lamont.** It is hard to measure what difference it made, but undoubtedly it was a favorable ruling.

Mr. **Brown.** Mr. Lamont, all these cables, and you yourself, have had a good deal to say about the process of educating the American investors to buy these belligerent bonds. I have here a letter, a series of letters, of Harris, Forbes & Co., who were associated with you intimately in that syndicate, were they not?

Mr. **Lamont.** They were one of the 61 syndicate managers, undoubtedly, Mr. Brown.

Mr. **Brown.** I will ask you if you consider this a fair sample of the sales method on the Anglo-French loan——

Mr. **Lamont.** This is a letter from Harris, Forbes & Co. to whom?

Mr. **Brown.** A series of letters, apparently, to their out-of-town offices, Chicago and Boston.

Mr. **Lamont.** I see.

Mr. **Brown** (reading):

> Things are boiling on the big credit loan to England and France. At a meeting yesterday of representatives of about 40 distributing houses at Morgan's office, Mr. Forbes was appointed chairman of a committee to work out the details of both the underwriting and the public offering.

Then further down it states [reading]:

> You will at once see that it is distinctly for the best interests of the flotation to make the underwriting a great big success. It must be quick and snappy, and the more withdrawals the better. Then, when the remainder of the issue is offered for subscription at 98, dealers and banks everywhere can jump in and push the final distribution with great enthusiasm. As Mr. Morgan said today, this loan is going to be a tremendous success, and a whole lot of people will wake up and find themselves about 8 days too late.
>
> Just think of an interest return of 5⅞ percent to an institution or investor who goes into the syndicate and withdraws his bonds. Why, nothing like it was ever heard of before—a 5-year obligation of the two greatest governments in the world, next to the United States—on close to a 6-percent basis.
>
> Confidentially, one withdrawn bond subscription was turned in today for $35,000,000. We are getting requests for participations from all directions. Every clearing-house bank in Pittsburgh has subscribed, and enthusiasm is at a high pitch in Philadelphia, Baltimore, Boston, and all the other financial centers of the East as well as here in New York.
>
> Tonight's wire is going to the most important banks in the Middle West and out on the Pacific coast over signatures like Mr. Wiggin, president of the Chase National; Mr. Prosser, president of the Bankers Trust; Mr. Sabin, president of the Guaranty; and Mr. Vanderlip, president of the National City, strongly recommending the loan both as to security and price and asking these few carefully chosen banks in each city to form a group and take charge of the distribution in their locality. As the telegram reads: "We are forming a countrywide syndicate, etc."

The letter further continues [reading]:

> * * * the writer personally doesn't see how any of your clients who are not prejudiced can fail to take advantage of this wonderful opportunity.

(The document referred to was marked "Exhibit No. 2287", and is included in the appendix on p. 8291.)

Mr. Brown. For the record I enter a letter of September 30, 1915, also from Harris, Forbes, being more about the loan.

(The document referred to was marked "Exhibit No. 2288", and is included in the appendix on p. 8292.)

Mr. Brown. Is that a fair sample of the educational process in that work?

Mr. Whitney. Did you say that was a letter from Harris, Forbes?

Mr. Brown. Harris, Forbes.

Mr. Lamont. Of course they are a retail selling house and very effective salesmen in that field.

Mr. Brown. Very effective salesmen in that field.

Mr. Lamont. I am not commenting on that letter, Mr. Brown.

Mr. Brown. Would you comment on it, and do you think it is a fair sample of the educational machine at work?

Mr. Lamont. I do not recall seeing this letter, or any other letter, and I am not able to comment on it.

Mr. Brown. It was one of your distributing and educational houses?

Mr. Lamont. It was not one of our houses. They got up their own letters without suggestion from us, and adopted their own approach, being one of the 61 syndicate managers. I suppose every bond-selling house, Mr. Brown, adopts its own approach to its own customers.

Mr. Whitney. You may remember, or perhaps you do not, Mr. Brown, that Harris, Forbes at that time were far and away the outstanding retail distributing house in the United States. There were very few at that time.

Mr. Brown. And they were very useful to you in that capacity, were they not?

Mr. Whitney. We never had any retail distribution of bonds.

Mr. Brown. That is what I mean.

Mr. Whitney. They were——

Mr. Brown. You were dependent upon retail distributors for the bonds?

Mr. Whitney. They were considered about the most effective and highest standing house in the whole country, in the Middle West and here. We had no distribution, and if you sold any bonds, retail or otherwise, that was the situation on them. They were not an educational house but a bond house.

Mr. Brown. You said it was necessary to educate the public to the goodness of these bonds. Is that glowing language accurate, first, and secondly, is it successful salesmanship?

Mr. Whitney. I do not know anything about salesmanship.

Mr. Lamont. In that connection, Mr. Brown, because you have mentioned this particular meeting of the bond houses, et cetera—suppose you put that in, Mr. Morgan?

Mr. Morgan. The only thing about the educational feature that I had to do with was to make a speech to all the distribution houses we could get to come to the Waldorf, on October 8, and I made them a very simple and, I think, a very careful speech.

Mr. Brown. Do you care to place that in the record?

Mr. Morgan. I would like to have leave to put it in the record.

Mr. Lamont. This reprint includes also, does it not, Mr. Morgan, brief remarks made by Dwight W. Morrow?

Mr. MORGAN. It includes brief remarks made also by Dwight W. Morrow.

The CHAIRMAN. On the same occasion?

Mr. MORGAN. Yes, sir.

Mr. LAMONT. Same occasion.

(The document referred to was marked "Exhibit No. 2289", and is included in the appendix on p. 8293.)

Mr. BROWN. Just to keep the record straight, I offer a cable, no. 7972, which does not need to be read.

I call your attention to cable of October 13, 1915, no. 9202.

Mr. LAMONT. What is the date, Mr. Brown?

Mr. BROWN. October 13.

Mr. WHITNEY. Mr. Brown, excuse me, but did you put in no. 7972?

Mr. BROWN. Yes, sir.

Mr. WHITNEY. Were you going to read it?

Mr. BROWN. It does not seem to be necessary. If you feel it is, read it.

Mr. WHITNEY. I do not think it is. I do not think it makes very much difference but I wondered why you put it in.

(The document referred to was marked "Exhibit No. 2290", and is included in the appendix on p. 8297.)

Mr. LAMONT. What is the next one?

Mr. BROWN. No. 9202, October 13, 1915, from J. P. Morgan & Co., New York, to E. C. Grenfell in London. I quote from about the middle of the cable.

> We have also thought it to advantage in quoting figures to associates to intimate that such figures did not include our own subscription, leaving them to infer as favorable things as they might desire from such a statement. For your confidential information, amount of underwriting, outside our own subscription, $508,000,000. You can readily see, therefore, how near right we were when we declined to undertake formation of syndicate for over amount mentioned. Two weeks ago, just after agreement had been reached, Lord Reading asked us pointedly what our firm's subscription was going to be. At that time we declined to tell him and, in fact, did not relish the inquiry, but have since said to him substantially as above.

I take that to mean that you just got the loan in under the wire.

Mr. MORGAN. It was underwritten with the margin mentioned, and, I think, finally reached $512,000,000.

Mr. WHITNEY. What do you mean by "just under the wire"?

Mr. BROWN. I take it to mean, if you had acceded to the Commission's request to float a larger loan, you would have been caught very much short.

Mr. WHITNEY. The record here is just the reverse. We recommended that it be only $250,000,000, but at their insistence did $500,000,000, and all through the record there has been the statement of how difficult we expected that would be. You did not read the first couple of sentences of that.

Mr. BROWN. Read it.

Mr. WHITNEY. The cable states:

> We have from start put ourselves down for minimum of $10,000,000 but among ourselves have agreed to hold ourselves further in reserve up to a total of $25,000,000, if that should be necessary. We have all thought it wise to make our amount somewhat elastic so as to be able to take up slack if necessary at last moment.

And then follows where you began.

403251

Mr. Brown. From the first sentence that I read, it would indicate that your associates in the syndicate were a little nervous about the amount.

Mr. Lamont. The underwriting came through very well, Mr. Brown. I do not remember.

Mr. Whitney. I think it is fair to say, Mr. Lamont, that all our associates thought the amount was stupendous, and as big a commercial transaction had never been done before or since.

Mr. Brown. That cable was offered for the record.

(The document referred to was marked "Exhibit 2291" and is included in the appendix on p. 8297.)

Mr. Brown. On October 16, 1915, I call your attention to cable no. 9296, in which the last sentence reads, the cable being from Morgan in New York to Morgan in London:

> Bear in mind, however, that most of the people who could be expected to buy the bonds for investment came in as underwriters, and it will be only by hard personal work of the 100 or more distributing houses that we have enlisted that the loan will be placed with the small investors.

(The document referred to was marked "Exhibit No. 2292" and is included in the appendix on p. 8297.)

Mr. Brown. I do not think that cable needs any comment.

On October 18, 1915, cable no. 9334, from Morgan in New York to Morgan in London, the last sentence of which reads [reading]:

> Response to public subscription is as yet very slow and, frankly, we do not look to see syndicate materially relieved under 90 days.

The first part is very significant and well known and has been talked about very much and we do not need to go into that.

(The document referred to was marked "Exhibit No. 2293" and is included in the appendix on p. 8298.)

Mr. Brown. That means, does it not, that the syndicate was loaded up with these bonds; the people whose business it is to engage in distributing bonds are not investors, primarily, are they, Mr. Lamont; these underwriting syndicates?

Mr. Lamont. Oh, yes; it is in this instance, Mr. Brown, and not private investors, but they included some banks which are investors.

Mr. Brown. They included investors, but to a large mass, at least half the loan was subscribed by people whose business it is not to buy bonds and hold them but to buy bonds and sell them; in other words, that the distributing mechanism of the bond market was loaded up with these bonds at this time, at any rate. Is that the correct interpretation, to your mind?

Mr. Lamont. I do not recall the proportions the selling houses shared in the amounts of the underwriting, but it was always clear all the time to all the underwriters that the distribution of these bonds, as we say, was going to be a slow and gradual process.

They therefore knew that as underwriters they were going to have to take up a good proportion of this underwriting. They knew that perfectly well.

WAR-TRADE INFLATION

Senator VANDENBERG. Mr. Brown, before you proceed, I have been reading Mr. Morgan's speech to the bond houses. Abstractly, now, I would like to ask one or two questions about it:

On page 2, Mr. Morgan, in the black-face type, you are emphasizing the fact that this loan is essential to the encouragement of this new export trade which had been developed in the course of the war, and you are making the point that that makes the loan a pro-American affair because it is in favor of American business.

Mr. MORGAN. Yes.

Senator VANDENBERG. Mr. Morgan, is it a healthy thing for a country to have an export trade booming on the basis of war orders that necessarily must be temporary. Is it not a direct invitation to inflation, which must be followed by a disastrous deflation?

Mr. MORGAN. I do not think that you can look ahead that way at the time and say that.

Senator VANDENBERG. Let us admit that you cannot look ahead at the time; let us just look at it abstractedly, because, after all, that is the function of the inquiry, as I see it. Would you not now say that when you are encouraging a war export trade of this nature you are encouraging an inflationary trade which must come to an end and which, therefore, must be followed by a very disastrous deflation?

Mr. MORGAN. No; I think that is overstating it, Senator.

Senator VANDENBERG. To what extent would you go in stating it?

Mr. MORGAN. I should say that to the extent that you have real exports and are paid real money for them, or advanced real money on them—it is the same thing—that you do not have an inflationary situation at all.

Senator VANDENBERG. But have you not induced a vast industrial activity which has to be demobilized at any moment when the war stops?

Mr. MORGAN. That is the case in any case of times of prosperity. There are times when your production exceeds your needs. That comes afterward.

Mr. VANDENBERG. Precisely; but if you build industrial expansion to fit a trade and appetite which is definitely known to have a terminus, is not that an invitation to industrial inflation that is bound to have a deflationary postcript subsequently?

Mr. MORGAN. I should not say that that was so; no.

Senator VANDENBERG. You think necessarily war trade is healthy?

Mr. MORGAN. I think the increase of exports helped this country. I do not think it led us into the war. I have always said that.

Mr. VANDENBERG. I am not discussing that.

Mr. MORGAN. A man will not decline an order that he is able to fill because later on he may have difficulty in selling all his products. He will take what he can get at the time, inevitably.

Senator VANDENBERG. Precisely, but is he a wise manager if he stupendously expands his production if he knows that these new orders have to stop next year or the year after?

Mr. MORGAN. Yes; I think he is.

Mr. LAMONT. In these particular munitions plants, the British Government were required to make an advance payment covering the outlays for new equipment, and so forth, that these people put up. In addition to that, there are certain figures here that I think are very interesting as bearing on your inquiry, which is a very pertinent inquiry.

Those are these:

The total amount of American exports during these neutral years to the four great Allies, Great Britain, France, Russia, and Italy, were seven billions of dollars. Of that not over two billions were in what were called munitions of war. The other five billions were in commodities, foodstuffs, cotton, raw materials, metals, manufactured goods of a general order.

Senator **Vandenberg**. Would not this be true: All substantially increased as the result of withdrawal of similar production abroad, and therefore, all related to the war?

Mr. **Lamont**. Oh, certainly, certainly; no question about that. But what would you have the country do, may I ask? Would you have the farmer who grows the wheat and the cotton grower say, "No; I will not fill orders at this time for cotton or for wheat?" Would you have the copper people say, "No; we will not fill orders for copper for fear that we might get a little out of gear"?

Senator **Vandenberg**. I certainly would say that we were penny-wise and pound-foolish if we tremendously expanded our productivity based solely upon a foreign-war appetite which we would know had to come to an end. It seems to me that that is what is inherent in this plea to investors to finance this trade for the benefit of America.

I am not quarreling with the viewpoint that you had at the time; we all had it. You are guilty of nothing that all the rest of us were not guilty of in respect to our enthusiasm for war trade.

But what we are now trying to find out is whether, as a matter of cold fact, that is not bad business, just from a business standpoint, not from a peace standpoint; from a business standpoint, is it not an invitation to an industrial inflation which has to be followed by disastrous industrial deflation?

Mr. **Lamont**. But, Senator, any boom in business, any boom in prosperity, whether it is in wartime or any other time, is bound to be followed by a certain period of deflation. Look at our 1920's. We do not want to forget them. And that was not wartime business, was it?

Senator **Vandenberg**. No; but do you not discriminate between an economic stimulus which comes in the natural course and an economic stimulus which is specifically the result of orders induced by war?

Mr. **Lamont**. I do not see that there is very much difference, Senator.

Senator **Vandenberg**. In other words, you still feel, Mr. Lamont, that heavy war export trade is a useful thing for the United States?

Mr. **Lamont**. That is a very general question, of course, Senator, and you would always want to look at the circumstances surrounding it, but in the case we have under discussion, the case of the World War, as Mr. Morgan has replied, the customers abroad wanted to increase their purchases of all sorts of American commodities.

Our country had those commodities to sell. I think it was the most natural and the most proper thing that they should sell them.

Senator **Vandenberg**. You do not feel that it had any unfortunate repercussions subsequently?

Mr. **Lamont**. No; I think that the repercussions came from other phases of the war, Senator—from other phases of the wartime.

Senator **Vandenberg**. I just want to ask one more question from this speech, quoting Mr. Morgan [reading from "Exhibit No. 2289"]:

> It is absolutely imperative for the country——

speaking of England and France——

> to make good the external bonds, no matter what arrangements it has to make as to internal affairs, because it may want to come again, and without incurring the worst form of bankruptcy and disgrace, it cannot abandon its external debts.

Is that still true?

Mr. **Morgan**. Yes.

Senator **Vandenberg**. That was sound doctrine then, and it is sound doctrine now?

Mr. **Morgan**. I can only say that is exactly what I thought at the time and I still do believe; yes.

Mr. **Whitney**. Senator Vandenberg, you asked if that industrialist had expanded his plant tremendously for war orders; would it not be imprudent to do that, knowing that the war must end sometime?

I think there has been a lot of evidence submitted to this committee, prior to our arrival here, that shows that, generally speaking, they did want to write off in the orders and take up the excess plant they built for these particular orders. That certainly was carried right through that rifle discussion; that they wanted to get their expenditures for expansion back from the purchaser rather than wait and try to carry on that great excess plant into some future peacetime activity.

Of course, it is true that there was industrial deflation immediately after the war, just along the lines you spoke of.

The munitions people are different from the agricultural people, who expanded their acreage and steamed up for a very large demand, where there was a reaction.

But I think you will find the industrial people pretty generally did allow against war orders for the fact that they were temporary and marked off their excessive plant during the period of the receipt of the war proceeds.

Senator **Vandenberg**. I think many of them attempted to be foresighted in that aspect, but, Mr. Whitney, I have been unable to escape the conclusion that a great portion of our post-war tragedy in the country, our post-war deflation, is the direct and inevitable result of pre-war inflation.

Mr. **Lamont**. But, of course, everybody knows the effect of every war economically is dreadful. Everybody knows that. But I do not see why, Senator, you tie it up so particularly to these particular purchases. If you are talking about controlling inflation and the circumstances leading to it, we are supposed to have a Federal Reserve System and a Federal Reserve Board that controls that very thing in the way of inflation, puts up rates and makes it more costly to carry on your trade.

That is the engine that is supposed to put on the brakes.

Senator Vandenberg. I am unable to see how any engine can put on the brakes if you are going to expand factories and create artificial employment, extend acreage, and create artificial markets, all of which are known to be contingent upon the duration of a war which everybody wants to stop as soon as possible. It seems to me that is a complete impossibility.

What I am saying is in no sense critical of what happened at the time, because it was the standard practice and the standard viewpoint. But if we are going to try to learn something from the experience we went through—and that is the sole extent of my interest in this affair—I cannot escape the conclusion that an artificially stimulated war export trade for America, instead of being profitable in the long run, is one of the worst liabilities we can possess.

Mr. Lamont. But, Senator, if you are to analyze that, it would be fair, would it not, to point out following the war how badly off our industrial plants were because of what you say was the pricking of the bubble, or break-down of the war orders and that sort of thing. We certainly had something of a depression in 1920 and 1921, but the commercial failures and manufacturing failures, and so forth, were very rare then, as I recall it. They were not heavy.

That fact was due largely to the fact that manufacturers had fortified themselves with excess reserves and all that sort of thing arising out of their excess earnings. The prudent farmer had presumably fortified himself out of his excess earnings.

Mr. Brown. Mr. Lamont, in regard to that writing-off that you and Mr. Whitney have both mentioned, if that writing-off is done with money raised by bonds, so long as those bonds are outstanding in the country's fiscal system, that is not written off, is it?

The interest charge on all that machinery that you say has been written off is still a burden in the bonds that have enabled the manufacturers—I mean, you float bonds for the Allied governments. The proceeds are used in heavy advance payments, and the wise manufacturer writes off his machinery. But the interest charge on that machinery survives in the bonds, and when the Liberty bond was floated to pay off those bonds, the interest charge still survives.

So that when we come to the financial, the banking crisis of the thirties, as against the industrial crisis of the immediately post-war years, I think it is entirely fair to say that that still unwritten-off-charge is right there in the depression of the thirties.

Mr. Lamont. To what bonds are you alluding when you say "those bonds"?

Mr. Brown. Any bonds. Mr. Whitney said that the advance payments enabled the write-down.

Mr. Lamont. Yes.

Mr. Brown. But that was possible only because you were borrowing money in the American market.

Mr. Lamont. Who were?

Mr. Brown. The Allied governments, to make these advance payments that were so judiciously applied by the manufacturers. Somebody put up money to do that, and the interest charge on that money stands still.

Mr. Whitney. They were paid.

Mr. Brown. They were paid? They were refunded.

Mr. LAMONT. They were paid off.

Mr. BROWN. Not all of them. Those that were paid, the six-hundred-and-odd millions that were paid out of the Liberty loans, the 600 millions in Liberty bonds, still survive in the banking structure.

Mr. WHITNEY. There were not 600 to start with.

Mr. BROWN. Eventually there were 600 paid.

Mr. WHITNEY. Where?

Mr. BROWN. According to the Treasury statement. We will come to that later.

Mr. WHITNEY. Senator Vandenberg, as I understood it, was directing his question to the effect upon the American economy of general expansion of industry and all the other businesses that were involved in these exports. But whether the people who did that expanding, namely, the munitions companies, the farmers, and all the other people, were being imprudent so to expand their facilities, knowing the bubble must be bursted, my answer to that question would be that those companies took means to write off their excess expansion; and I cannot see what it has to do with those companies because Great Britain or France borrowed in this country to pay them a sufficient price to permit that amortization of their plants.

Mr. MORGAN. And they paid the interest also.

Mr. WHITNEY. And they paid the interest, did they not?

Mr. BROWN. If there is a financial difficulty in a company because it has idle plants, that comes down in practical matters to the difficulty of paying interest on the cost of that plant.

If that has been written off by creating a debt somewhere else in the banking system, the interest still has to be met.

Mr. WHITNEY. It is not in the banking system, Mr. Brown. The interest was being borne by the Allied governments who borrowed money in this country to pay an entirely different group of investors who had purchased those bonds.

As far as the industrial corporations went, it is true that the carrying of excess plants has to be taken out of earnings. To do that they amortized these excess plants, those who did it—such as du Pont, primarily, I had in mind. They wrote off their excess plant out of their current earnings.

Mr. BROWN. Yes; and that current earning was borrowed money, Mr. Whitney.

Mr. WHITNEY. By whom?

Mr. BROWN. By the Allies.

Mr. WHITNEY. What has that to do with du Pont?

Mr. BROWN. Because the interest must be paid, and when the United States Treasury pays that off, still the interest must be paid.

Mr. WHITNEY. If you are going into the question of the promotion of industry and agriculture and the rest of it that came after we got into the war, there was a very intense expansion, guaranteed prices, and so forth, at that time. That was not what Senator Vandenberg was speaking about.

Of course, the cost of that was paid by the Liberty Loans and therefore had to be taken care of by taxing the public of the United States. That is true.

Mr. BROWN. Surely, and insofar as the du Pont expansion was paid by bonds that were refunded from the Treasury, the same thing is true.

Mr. **Whitney**. You take your figure, which I do not recognize as being accurate. There was 600 million dollars out of 27 billions, was it not?

Mr. **Brown**. I forget the figure.

Mr. **Lamont**. That is what it is.

Mr. **Whitney**. Roughly.

Mr. **Lamont**. Mr. Chairman, I do not want to prolong this discussion, but it is very interesting to me and I wanted to get, if we could, Senator Vandenberg's mind. I am interested in his thesis.

What would you have us do in similar circumstances, Senator? Would you have us say to the farmer, the cotton grower, the meat packer, and so forth, "No; you must not sell your goods"?

Senator **Vandenberg**. I would not have similar circumstances.

Mr. **Lamont**. None of us would, but suppose——

Senator **Vandenberg**. What I want to see is whether we can write the rules so there will not be similar circumstances.

Mr. **Whitney**. But, Senator Vandenberg, looking at it objectively and directing our attention purely to the catastrophe that has happened in this country in the last 5 years, is it not probably fair to say that more of that trouble was caused by the reconstruction years after the war and the economic struggles that all the nations got into among themselves, that caused the inflation which burst in 1929 and 1930, or reached its height then, and then blew up?

Is not that more the reconstruction period? That, of course, can be traced directly back to the war, if you want.

Mr. **Morgan**. Might I add there, Senator Vandenberg, that during a war everybody lives on his capital, and they get the habit of living on their capital. It gives you a feeling of extraordinary comfort and wealth while you are doing it.

Senator **Vandenberg**. They live on their capital and their commissions.

Mr. **Morgan**. They live on what they can get.

Senator **Vandenberg**. That is right.

Mr. **Morgan**. They live on what they get, but they turn their capital loose, and that gives you a great feeling of luxury. I have done it myself; I know.

Then the day comes when you have got to get back to living on your earnings.

Senator **Vandenberg**. That is the same kind of luxury we are living in right now.

Mr. **Morgan**. That is the same kind of luxury we are living in right now. We are trying to live on our earnings.

Senator **Vandenberg**. On our capital.

Mr. **Morgan**. We have been trying to live on our capital. Now we come back to the fact that we have to live on our earnings, and it is not very comfortable.

Mr. **Brown**. As fitting right into the discussion that has been going back and forth, it is worth while at this point to put into the record a letter from Brien Cokayne, the Deputy Governor of the Bank of England, written to Governor Strong on January 15, 1917. The particular occasion of the letter is the Reserve Board's ruling in regard to the British Treasury bills, which is irrelevant, but he has this to say——

Mr. **Lamont**. Where did that come from, Mr. Brown?

Mr. **Brown**. It is from the Bank of England to the Federal Reserve Bank.

Mr. **Lamont**. Thank you.

(The document referred to was marked "Exhibit No. 2294" and is included in the appendix on p. 8298.)

Mr. **Brown** (reading):

> I almost wonder that the Board, when it saw that millions of money were being invested in ephemeral works to supply the enormous temporary requirements of the Allies, did not issue a warning in time to check such dangerous expansion.

Those are practically the words of Senator Vandenberg, out of the mouth of the Bank of England, who is certainly, in this case, an unprejudiced witness.

Here is another letter from Governor Strong to Adrian Larkin, written in February 1918.

(The document referred to was marked "Exhibit No. 2295" and is included in the appendix on p. 8298.)

Mr. **Brown** (reading):

> Failure to produce the result desired; that is, reduce consumption—

This is in regard to war financing—

> means that the materials required for the war, both by this country and by our allies, must be produced as an addition to the normal production of the country in peace times, thereby causing a tremendous expansion of credit, a shortage of labor and materials, constantly rising prices for labor and materials, a much more expensive war, domestic discontent with living hardships, and a mortgage upon the production of future generations that may prove to be a staggering load.
>
> The goods now produced and consumed in war, without the germ of reproduction in them, will be paid for partly by taxes and partly by bonds sold to those who have incomes in excess of their present needs. Those who buy the bonds must some day have their loans repaid by taxes collected from others in the future. The loans are mortgages upon the productive efforts of all the people.

Mr. **Lamont**. Senator Vandenberg, I think that you and I are in accord if you mean and I mean that war is always economically very bad for everybody whether they are fighting or not. It is a bad thing, a disastrous thing.

Senator **Vandenberg**. We agree on that; and then I add that I think that since that is our fundamental premise, we notoriously err if we try to stimulate our partnership in that liability.

Mr. **Lamont**. If that means embargo, you would have to include food, would you not, because, in the late war, that amounted to such a large proportion—food and ordinary manufactures?

Senator **Vandenberg**. You have to include whatever is essential to reach the net result I am talking about. While I am not yet prepared to say what the precise formula ought to be, I am thoroughly sure that America is not going to lose anything in the long run when it loses the opportunity to participate in war trade.

Mr. **Lamont**. We are all determined to keep out of war; there is no doubt about that. It is simply as you indicate, a question of what is the best formula to that end.

Senator **Vandenberg**. I apologize for detouring, Mr. Chairman.

The **Chairman**. You have not detoured at all. This has been very material.

Mr. **Lamont**. I associate myself with Senator Vandenberg.

ANGLO-FRENCH LOANS OF 1915

Mr. **Brown**. Turning again to the few remaining details of the Anglo-French loan, we have here a cable of November 3, 1915, from E. C. Grenfell to Mr. Lamont.

(The document referred to was marked "Exhibit No. 2296" and is included in the appendix on p. 8300.)

Mr. **Brown** (reading):

> As soon as if ever you have a little leisure, will you write me fully history of Anglo-French loan 1915 negotiations, plots and counterplots, and attitude of Commissioners. This would greatly help me as there has been considerable amount of underground work here, possibly begun in New York. Sir Edward Holden has returned with very swelled head and has been forming committee and making arrangements on his own authority. He has been always very jealous of Morgan houses and practically gave out here that he was going to work through other parties, form a committee of National City Bank, New York; Guaranty Trust Co., New York; and Bankers Trust Co., New York, to your exclusion. * * *

By the way, do you suppose Sir Edward's jealousy of the Morgan houses in any way contributed to Governor Strong's refusal to deal with him on the first question of an unsecured loan?

Mr. **Lamont**. Mr. Brown, do you really want to ask that question?

Mr. **Brown**. Yes; I think that is a fair question. We have seen the intimacy between J. P. Morgan & Co., and Governor Strong.

Mr. **Lamont**. You are the person that introduced into the record Governor Strong's letter to Sir Edward Holden. Governor Strong is dead. There is nobody to interpret what he meant except his letter itself. In that letter Governor Strong, a man of high integrity and sense of public duty, said to Sir Edward Holden that because of his semi-official position as head of the Federal Reserve Bank of New York, and therefore the connection with the United States Treasury, he felt it inadvisable for him to advise Holden on any question of a British Government bond.

Mr. **Brown**. Thank you.

Mr. **Lamont**. That is the record.

Mr. **Brown**. In regard to the first or opening three lines there, what were the negotiations, plots, and counterplots to which Mr. Grenfell refers?

Mr. **Lamont**. Oh, well, the negotiations were as I described to you briefly on Friday. Plots and counterplots—I have not seen this for a long time, but I would say that was a pleasant phrase on the part of Mr. Grenfell alluding simply to the fact that in a mixed commission of that kind there was a certain amount of pulling and hauling behind the scenes.

Mr. **Brown**. Do you recall what that pulling and hauling was?

Mr. **Lamont**. I recollect the chief pulling and hauling, as I would call it; that was when, after only three or four days of negotiation, we made an outright proposition to try to form a syndicate for $500,000,000 at a point and a half more for the British Government than they afterward secured.

At that point the French threw a monkey wrench into the situation by demanding $750,000,000. And Lord Reading, the head of the Commission, was undoubtedly having a very difficult time and there was a lot of pulling and hauling over that item; because, as it afterward turned out, it lost a point and a half to the British

Government and delayed the operation, as Mr. Whitney pointed out the other day, so it made it much more difficult.

I think that was the chief thing.

Mr. Brown. Your criticisms were directed against the French, primarily?

Mr. Lamont. I was not criticizing. You were asking me to describe what the allusion was.

Mr. Brown. I call your attention to a cable of the same date to Mr. Grenfell, signed by yourself, no. 9658.

(The document referred to was marked "Exhibit No. 2297" and is included in the appendix on p. 8301.)

Mr. Brown (reading):

> Two weeks ago, dictated memorandum for you covering this matter——

This is an answer to the preceding cable——

> but because it contained pretty drastic criticism hesitated to send same. Am now transmitting to you, tomorrow.

It seems that you were criticizing somebody.

Mr. Lamont. Undoubtedly I criticized the general course of the Commission in having failed to take advantage of the early proposition that was made to them.

Mr. Brown. Judging by your former statement that criticism, then, was directed primarily against the French?

Mr. Lamont. I guess there was some for Sir Edward Holden, undoubtedly.

Mr. Brown. The cable goes on:

> For your further information, remaining British and French commissioners here express bitter disappointment over slow sales of loan, total sales to public being less than $10,000,000, over and above the $260,000,000 withdrawn by participants, thus leaving $230,000,000 to be sold to the public. Sales proceeding so slowly that practically no chance before dissolution of syndicate December 15 of being able to dispose of any large amount.

Mr. Lamont. Yes; that indicates, as I said before, that the underwriters from the start had contemplated taking over the greater part of their participations.

Mr. Brown. I call your attention to the end of the cable:

> Lord Reading, however, will remember that throughout the negotiations we adhered to the position that the best possible plan for enhancing the credit of the Governments here, and for eventually obtaining the largest possible credit was to authorize our forming initial syndicate $250,000,000, have same oversubscribed, with the result that the underwriting would be considered as very choice, bonds would be handled quickly, go to premium, etc., and put us in early position for repeated operation. Commission would not listen to this and insisted upon our conducting an operation which we plainly foretold them would surfeit everybody and, in the long run, prove nothing like as creditable to Governments. We are doing everything in our power to disprove our own prophecy, but the circumstances are too much for us, for in order to accomplish the $500,000,000 underwriting we were obliged to throw it open to all investors of any size and even at that barely squeezed by the necessary mark. The result is that investing public came in largely on underwriting and on our offering we have limited public to appeal to until educational work throughout country has had opportunity to take effect, which will be a matter not of weeks but of months.

Does not that bear out my question before, that the distributing houses of the country were loaded up with this, and that the men whose business it was to buy and sell bonds had bought these bonds but now they were unable to sell them, because, as you say, the investing public was in on the other half of the loan already?

Mr. LAMONT. I would say that it bore out our statement, which we have made again and again Friday, and make it again this morning, that it was a very heavy operation, and we had to use every possible effort.

Mr. Whitney can explain to you the state of the bond-selling situation in those days much better than I can. Supposing you indicate that, Mr. Whitney.

Mr. WHITNEY. Mr. Brown, you know today it is supposed that according to the studies made by the Securities & Exchange Commission, there are something like 10,000 firms engaged in the distribution of securities.

At that time, according to our best guess, there were about 175. I am leaving out of that, of course, members of the stock exchanges, who at that time did nothing but pure brokerage business.

Also we must remember that until the Liberty loans, or until the war, really, this country was a debtor Nation, and the question of buying bonds was an almost unknown business.

At that time, if you go back to study the records, you will find that the savings among the people generally went to the savings banks and to some form or other of insurance. It was only with the introduction of the Liberty Loan and all the very intensive work that was then done that it became the customary thing for the ordinary individual to buy securities.

Of course, with that development there grew up in the post-war period a very large and active organization for distributing bonds to private investors. Prior to the war practically the only buyers of securities individually were savings banks, insurance companies, and certain people of substantial means, who knew about it and who understood it.

There were not many salesmen. They say there are 300,000 salesmen in this country now. At one time back there, in 1916, we figured it out and there were about 2,000 salesmen of bonds and at that time about 250 bond houses.

So, obviously, when you say all the distributing people were loaded up, I think the records will show the people who were engaged in the actual distribution of bonds were rather few and were not particularly loaded up because they were not people of any substantial capital. That was long before the days of so-called "bank affiliates", and there were about five or six what you call national bond distributing houses. It was a long, slow, and difficult process in the first place to educate the distributing houses themselves, and then, in the second place, to distribute to the salesmen they had and ultimately through them to the public.

It is just like any other merchandising proposition.

Senator CLARK. This loan was really the entering wedge, was it not, on the enormous expansion of the sale of securities to the American public, which did so much to bring us into our present deplorable economic situation?

Mr. WHITNEY. I really do not think that is so.

Senator CLARK. That follows from your statement.

Mr. WHITNEY. No; I said, the Liberty loans. If you had been, as I was, then engaged in trying to distribute securities in this country, you would find that really the Liberty Loan made the great difference, because that was organized, as you know, very completely, through all the districts. That is really what converted this country.

Senator **Clark**. This loan seems to have been rather completely organized through all the districts, from the exhibits we put in last Friday.

Mr. **Whitney**. For the underwriting, that is quite true. It was a tremendous, a terrific job, and very serious intensive work was done to organize the underwriting. When $512,000,000 of underwriting was obtained, as it says in this cable, it was obtained only because a lot of investors who would normally be investors, people of large means, came in at the underwriting price. This cable perfectly clearly indicates what we said right along, that we did not expect to do more than get the underwriting. That got Great Britain the money.

Senator **Clark**. But you have explained here repeatedly, both yourself, Mr. Morgan, and Mr. Lamont, that this was an operation of absolutely unprecedented magnitude in this country at that time.

Mr. **Whitney**. Absolutely.

Senator **Clark**. It required a development of distribution resources hitherto unknown in the country.

And granting that the Liberty loans were a little greater than this before they subsequently got through with them, this was really the entering wedge of that great development in the distribution of securities of all kinds to the American people, was it not?

Mr. **Whitney**. Certainly, to the extent that this is the public offering that marked the change from the United States being a debtor to a credit nation; yes.

Senator **Clark**. Yes; and it was the first offering that really marked this enormous expansion of distribution to the American public?

Mr. **Lamont**. But, Senator, here are some figures——

Senator **Clark**. Just let Mr. Whitney answer that question, if you please, Mr. Lamont.

Mr. **Lamont**. Excuse me, sir.

Senator **Clark**. This is a fact, that it really marked an epoch—let us say, marked a state in development from the comparatively moderate distribution which we have described awhile ago by one-hundred-and-some distributors in this country into a process which ultimately expanded into 10,000 distributors and billions of dollars of securities being offered and taken up by the American people.

Mr. **Whitney**. In a certain sense I suppose it did. It was the first effort. But from the standpoint of distribution, the only thing that could be used was the existing organization, which was not developed.

Senator **Clark**. Yes; I understand, but it was the first step in that enormous expansion that subsequently took place.

Mr. **Whitney**. I think that is fair, because it was the first perhaps large step in opening the markets of this country, which permitted the development of this country industrially and every other way.

This marked the change where we had to look in this country for our own development to our own capital, as before that we had largely looked to European markets.

So if you want to say this is the beginning of the present ability of industrials and railroads and public utilities and all kinds of business to get money to carry on their business, I think that is fair.

Senator CLARK. Even to very much overexpansion?

Mr. WHITNEY. Oh, certainly. Before you came in, Senator, we had talked about the expansion of the country in the twenties.

Senator CLARK. I do not know what went on before I came in. I was in another committee.

Mr. LAMONT. There were some figures on that. You said, "Increased during the Liberty Loan financing." I think they are of great interest, and I will give them from memory.

We figure that the total number of investors in Allied loans in the United States was not over 400,000, possibly 500,000 investors in all the United States.

The first Liberty Loan campaign resulted in 4,000,000 applications for that one loan. There is a jump from 400,000 to 4,000,000; 400,000 for all the Allied loans to 4,000,000 for the first Liberty Loan.

Senator CLARK. One of the important results of this enormous expansion of the means of distribution and this education, so to speak, of the American investing public, was the investment of hundreds of millions of dollars of money in the American investments in South American bonds.

I am not meaning to suggest Morgan & Co. put out the South American bonds, but that was an immediate result of this campaign of education and distribution of securities throughout the country. Is not that a fair statement, Mr. Morgan?

Mr. MORGAN. May I answer that for a moment?

Senator CLARK. Yes, sir.

Mr. MORGAN. You said, yourself—you gave the whole story—did not this result in the putting out to the American public of securities of all kinds? I tell you that that is the whole trouble.

Senator CLARK. That is true.

Mr. MORGAN. You are absolutely right.

Senator CLARK. All right. That is all I wanted to develop.

Mr. MORGAN. If they are not choosy about their securities, they make a great mistake.

Senator CLARK. All right. That is all I was interested in.

Mr. BROWN. I call your attention to a letter from J. P. Morgan & Co., to R. Y. Hebden, Esq., on November 4, 1915. I judge it is Mr. Anderson's letter.

(The document referred to was marked "Exhibit No. 2298" and is included in the appendix on p. 8301.)

Mr. BROWN (reading):

> We haven't made any statement as to the amount of sales of Anglo-French bonds and, for tactical reasons, I would rather prefer to be in a position where we could make the statement that we hadn't given the figures to anyone. For your own information, however, the sales, while slow for the first few days, have been increasing in a very satisfactory way. It is too early yet to make a guess as to the total result of the sales by the time the syndicate is dissolved, and I wouldn't want at this time to hazard an opinion on the subject.

In contrast to that, I call your attention to a cable of November 11, of J. P. Morgan & Co., to Morgan, Grenfell & Co., no. 9832, the bottom part.

(The document referred to was marked "Exhibit No. 2299" and is included in the appendix on p. 8302.)

Mr. BROWN (reading):

> * * * reason being that with bonds going as slowly as they are, it is increasingly manifest that upon dissolution of syndicate next month market price is practically certain to decline and we are anxious to be in a position ourselves to protect the market as far as may be feasible. After dissolution of syndicate there are really no members of group that we can ask to assist in this, it being quite a thankless operation.

There does not seem to be any indication of the great public responsiveness there.

Mr. WHITNEY. We have never pretended there was.

Mr. BROWN. I think there was some testimony along that line, or at least some people construed it so.

Mr. WHITNEY. That is different.

Mr. BROWN. I have here a letter from Harris, Forbes & Co., to Harris Trust & Savings Bank, Chicago, on December 9, 1915.

(The document referred to was marked "Exhibit No. 2300" and is included in the appendix on p. 8302.)

Mr. BROWN. I will read part of it [reading]:

> We have this morning discussed the matter with J. P. Morgan & Co., and they have authorized us to trade the "seller contracts" at the market.

This, I judge, refers to the dissolution of the syndicate.

> As intimated above, we are quite confident that unrestricted trading for the time being "at the market" is all that is needed to stimulate the demand for these bonds and that any turn may reasonably be expected to put the bonds back within a short time to a point more nearly in keeping with their actual investment value.

The closing line is:

> We shall be glad to execute orders for the bonds at the market.

You do not recall, do you, whether that was Harris, Forbes' own idea or whether they gathered that in conversation from you at all?

Mr. LAMONT. I have not the slightest recollection.

Mr. WHITNEY. It is only fair to assume it is their own idea.

Mr. BROWN. A letter from Lazard Freres, New York, to Lazard Freres, Paris, dated October 29, 1915, going back a little.

(The document referred to was marked "Exhibit No. 2301", and is included in the appendix on p. 8303.)

Mr. BROWN. It says:

> Not very much interest is taken by the general public in these bonds and it is therefore difficult to predict whether the syndicate will be able to uphold the quotation at anywhere near the issue price when the syndicate is once dissolved.

As a matter of fact, the syndicate was not able to hold the price up, was it?

Mr. LAMONT. Mr. Whitney can answer it. I do not think the syndicate attempted to maintain the price at the issue level, did it?

Mr. BROWN. The result was that all the underwriters whose business, as I said, was not only to buy bonds but to sell them, had them left on their shelves or else had their choice of taking a handsome loss.

Mr. WHITNEY. Mr. Brown, you use the word "underwriter." The underwriters in this loan, as we have stated many times, were not only those who distributed the bonds but largely banks and investors?

Mr. Brown. But insofar as the ordinary term is used, they were also included and they were unable to distribute the bonds except at a loss.

Mr. Whitney. I do not have the record here—I can get it very easily—but I do not think the so-called distributors, the retail houses in the bond business, had a very heavy underwriting position. I can look it up. It is not, relative to the total.

Mr. Brown. We can offer for the record, and the record will therefore show, the participation and subscription lists of the Anglo-French loan.

(The document referred to was marked "Exhibit No. 2302", and is included in the appendix on p. 8303.)

Mr. Whitney. There is no question about it that the underwriters, as they were made up of banks, individuals, and bond houses, did not find a ready sale of the bonds to the public. There is no question about that.

Mr. Brown. I will introduce in the record, just to make the record complete, a letter from Sir Frederick Williams Taylor to Mr. Lamont, dated the 28th of April 1916, in which he is inquiring about the market for Anglo-French loans.

(The document referred to was marked "Exhibit No. 2303", and is included in the appendix on p. 8319.)

Mr. Brown. I also introduce Mr. Lamont's answer, of May 1.

(The document referred to was marked "Exhibit No. 2304", and is included in the appendix on p. 8319.)

Mr. Brown (reading from "Exhibit No. 2304"):

> My guess upon the course of any particular security usually turns out wrong; but, if I were obliged to guess in regard to the Anglo-French bonds, I should be inclined to think that, even with the steady absorption which is going on, it would be some little time yet before we should see a material advance in the security.

He says:

> * * * undoubtedly a good many American manufacturers still have on hand considerable holdings of this security.

Then Mr. Anderson's answer of the same date to Sir Frederick Williams Taylor.

(The document referred to was marked "Exhibit No. 2305", and is included in the appendix on p. 8320.)

Mr. Brown. In that he says [reading]:

> We are not so closely in touch with the buying by small individual investors, but from the reports that come to us, it seems to be clear that a steady absorption in small denomination bonds is going on all the time. As against this, some of the larger interests—notably the manufacturing concerns who subscribed to the loan from business reasons when it was first arranged—have found it advisable to convert some of their bonds into cash, and the selling of one or two large amounts of this sort is probably the reason for the market's having failed to advance more from the recent low.

Then at the bottom of that paragraph Mr. Anderson says he has tabulated the transactions on the Stock Exchange since the active trading began a few days prior to the dissolution of the syndicate, and it aggregated approximately $89,132,000.

I offer for the record at that point an account entitled "Summary of British and French Government, joint bond purchase loan account, Anglo-French 5-year, 5-percents", which shows that up to the date of this letter this purchase account, that is, by J. P. Morgan & Co., had purchased in the aggregate $18,814,000 Anglo-French bonds and had sold $15,893,000; so that out of the total market operations from October 15th to May 1 of $89,000,000, $34,000,000 was activities of J. P. Morgan & Co.

(The document referred to was marked "Exhibit No. 2306", and is included in the appendix on p. 8321.)

EXCHANGE CRISIS [1]

Senator BARBOUR. Mr. Lamont, just while there is a pause here, if I may, revert to the discussion we had about, you might say, the lack of information of the support or lack of support of the pound sterling at that time, and the newspaper photostatic clippings that you supplied, as a businessman at the time, I am under the impression, and I would like to have you correct me if I am wrong, that practically every bank knew about this situation as far as the exchange departments were concerned.

In other words, anybody interested in exchange approaching any bank would have been informed pretty quickly as to the situation as it was generally known among banks.

There was some discussion here as to the fact that at the time the British decided no longer to support the pound sterling in the American market it was something of a secret. My impression is that it was no secret at all.

Senator CLARK. The exchange quotations showed just what was happening to the exchange market.

Senator BARBOUR. Yes. I think that everybody knew about it.

Mr. LAMONT. There was no doubt, Senator, it was a thing that was being talked about.

Senator BARBOUR. That is what I mean.

Mr. LAMONT. It was every-day gossip.

Senator CLARK. Nobody ever contended, so far as I know, Mr. Lamont, that there was any secret about the fact that the exchange market was taking a tumble. It was obvious that support had been withdrawn from the market, to anybody that studied the market reports, I take it.

Senator BARBOUR. The whole development I do not think was secret.

Mr. WHITNEY. A month before that the newspapers commented on the weakness of exchange. When it broke first to 4.76, and then to 4.74, then to 4.72, there were repeated comments. We put in those newspaper clippings showing the comments from financial journals of one kind or another, showing it was receiving a great deal of attention and causing a great deal of worry among the banks or financial communities.

Mr. BROWN. Clearly the sterling rate could not jump all around without having anybody know about it.

Mr. WHITNEY. Certainly.

Mr. BROWN. The question is, how much did the public know, not about the rate, but what was being done to support it or not to support it.

Senator BARBOUR. The point is this, I think that anybody that was really interested or who had reason to be interested or might want to buy pounds sterling, could have at any time gotten the information.

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[1] See also "Exhibits Nos. 3123 and 3124", Hearings, Part XXX.

Senator CLARK. Gotten what information?

Senator BARBOUR. As to the situation generally.

Senator CLARK. You mean, information that Morgan & Co. had been in communication with the British Government urging them to take steps to bolster up the market, and that at a certain date, Morgan & Co. withdrew its support from the market, at the same time notifying the Secretary of the Treasury of a very drastic situation? Do you think that was known to the public?

Senator BARBOUR. I do not think it knew all the intimate details, but the point was, I do not think the public was uninformed as to what the whole situation was at any particular stage of the time.

Senator CLARK. Certainly the public was not uninformed that the exchange market was selling off. Anybody could pick up a newspaper and read that, of course.

But as to the point of this stage as to the negotiations between Morgan & Co. and the British Government, with the subsequent effect on the market, I do not think that was known to the public, and nothing has been produced here to indicate it was.

Mr. LAMONT. Earlier in the session this morning——

Senator CLARK. I just came in a little while ago.

Mr. LAMONT. We introduced a couple of photostats of newspaper clippings of August 10, 1915,[1] which you see was 7 days prior to the break in exchange, alluding to the talk which Mr. Davison had the honor of having with Secretary McAdoo.

From those clippings, which appeared in several papers at the time, it appears that Mr. McAdoo had sent for him to come to the Subtreasury in New York, together with a great many other different people, to discuss pending questions. So that the public was fully informed that there must have been something——

Senator CLARK. Was there anything in any of these clippings that had to do with this visit of Mr. Davison to Secretary McAdoo on the 14th?

Mr. LAMONT. There was none.

Senator CLARK. That was referred to in this cablegram when Mr. Davison went to Secretary McAdoo to serve notice on him that there was a very serious and tragic situation existing, which was the occasion of Mr. McAdoo's letter to President Wilson.

It seems to me that is really the initial interview, the one on the 14th.

Mr. LAMONT. There was none on the 14th.

Senator CLARK. When Morgan & Co. notified the British Government that Mr. Davison was communicating with Secretary McAdoo.

Mr. LAMONT. Certainly.

Senator CLARK. I assumed the interview took place because you had notified the British Government that it was taking place.

Mr. WHITNEY. Senator Clark, that is what we tried to bring up this morning. This newspaper clipping was on August 10, and referred to a visit by Mr. Davison made to the Secretary on the 9th of August at the Secretary's invitation.

If you remember the chronology, the cable to which you now refer was the 18th.[2] May I just read it again?

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[1] "Exhibits Nos. 2279 and 2280", appendix, p. 8285.

[2] Previously entered as "Exhibit No. 2213." See Hearings, Part XXVI, p. 8121.

Senator **Clark**. Yes. It says: "In view of the conference, H. P. Davison had with the Secretary of the Treasury."

Mr. **Whitney**. "In view of the conference H. P. Davison had with the Secretary of Treasury." We were asked if we knew anything about it. We went home and tried to find out, and we found this clipping, which we had no record of—I mean, of the meeting. That is the 18th. The point is only that on the 11th of August, 2 days after Mr. Davison saw the Secretary, was the first day when we warned them that they were coming to the end of their immediate resources; and 2 days again after that, sterling having broken another 2 cents, we stopped buying; and on the 14th we got the cable instructing us, as we interpreted it, to stop buying exchange on the market. In other words, the talk Mr. Davison had with him was prior to this action rather than subsequent.

Senator **Clark**. The talk to which I am referring, Mr. Whitney, is the information conveyed to Secretary McAdoo, in which you say, "In view of the previous conversation"—I have not the exhibit right before me.

Mr. **Whitney**. That is what it did say.

Senator **Clark** (referring to exhibit): In view of the previous conversation between Mr. Davison and Mr. McAdoo, you were notifying Mr. McAdoo that a very serious situation exists. And it was evidently as the result of this warning that Mr. McAdoo wrote his letter to President Wilson.

Mr. **Whitney**. I would not know.

Senator **Clark**. You say it is perfectly clear as to what happened. This refers to the interview to which you just referred.

Mr. **Whitney**. On the exchange.

Senator **Clark** (reading):[1]

> For your information, in view of the conference H. P. Davison had with the Secretary of the Treasury——

that is the one to which we referred——

> we have today sent word to the Secretary of the Treasury that we regard the exchange situation very serious from the point of view of our commerce.

Evidently the message which you sent on the 18th touched off the letter to President Wilson.

Mr. **Morgan**. Would it not be quite natural to expect that Secretary McAdoo said to Mr. Davison, "Just keep me informed because I have got to know about this thing"?

Senator **Clark**. That may be, Mr. Morgan. I am not disputing that at all. What I am saying is that apparently what set the trigger off for the McAdoo letter to President Wilson was your letter of the 18h.

Mr. **Morgan**. Mr. Davison was not the only man Mr. McAdoo saw.

Mr. **Lamont**. Senator, do you not suppose that the Administration, and all parts of the Administration, were hearing from all over the country about the exchange situation?

Senator **Clark**. You were not evidently willing to rely on that, Mr. Lamont, because on the 18th you sent him word yourself.

Mr. **Lamont**. Certainly, but do you not suppose, on the point that Mr. Morgan just made, that the cotton Senators or the wheat Senators, those hooked up with cotton and wheat, had to be taken care of?

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[1] Previously entered as "Exhibit No. 2213." See Hearings, Part XXVI, p. 8121.

Senator **Clark**. I do not know.

Mr. **Morgan**. Nobody knows.

Mr. **Lamont**. Nobody knows, because all the great amounts of sterling were for cotton, wheat, and so forth, and would interest the western Senators.

Senator **Clark**. I do not know as to that, Mr. Lamont. All I do know is that the firm which had been, on behalf of the British Government, supporting exchange, had withdrawn its support just a few days before, and did notify the Secretary of the Treasury, which was followed by his letter to the President of the United States. That much of the sequence we know. Whether any cotton Senators, or any other Senators, or others, intervened, we do not know at the present time, but we may find out some day.

Mr. **Whitney**. We did not withdraw support, Senator, as to the exchange until 4 days after Mr. Davison had had a talk with the Secretary.

Senator **Clark**. That seems to be perfectly obvious on the face of the letter.

Mr. **Brown**. After you withdrew support, you sent word about it?

Mr. **Whitney**. Four days again. Four days seems to be a mystic period.

ANGLO-FRENCH LOANS OF 1915

Mr. **Brown**. I introduce into the record another letter of Harris, Forbes to N. W. Harris & Co., Boston, Mass., dated November 4, 1915. The second paragraph of that letter reads as follows:

> At a conference about a week ago it was decided to discontinue the large syndicate advertisement and in place of this large advertisement to run a number of single, double, and triple-column advertisements. These advertisements are to appear under the name of different houses; and while they are to be paid for by the syndicate, the idea is to make them appear to be the individual advertisement of the different houses.

Then at the bottom the letter continues [reading]:

> Each house is to be allowed to prepare its own advertisements and place them through their own advertising agents. We have prepared in New York and have set up about fifty different advertisements, which advertisements will be available for the other central cities if desired.

This indicates that all over the country there were advertisements of this bond, signed by local distributors, does it not?

Mr. **Whitney**. Quite.

Mr. **Brown**. But the advertisement was paid for and written in the central office of the Guaranty Trust Co., was it not?

Mr. **Whitney**. As I remember it, there was a group of offices, of various houses and banks, which had the advertising; yes.

Mr. **Brown**. That letter is offered for the record.

(The document referred to was marked "Exhibit No. 2307" and is included in the appendix on p. 8330.)

Mr. **Brown**. What was the object of having the same advertising of the central people signed by different houses?

Mr. **Whitney**. Because all those houses were members of the original managers' syndicate, and these pieces of local advertising were placed where the particular houses happened to have their chief offices. In other words, houses in New England would advertise in New England, and a house in Chicago would advertise there. I am speaking from memory; any house in St. Paul would advertise there, and so forth. They would take the local distributors, the retail houses, in the different localities.

Mr. **Brown**. They signed it, but the advertisement was prepared in the central office and paid for centrally?

Mr. **Whitney**. Yes, sir; and it is always done that way in the bond business, Mr. Brown. Arthur Young & Co.'s account shows so much for advertising. It is perfectly open, and the expenses were for that purpose.

Mr. **Brown**. I offer for the record a letter on the Anglo-French loan situation dated December 17, 1915, merely showing for the record the number of advertisements run, and so forth.

(The document referred to was marked "Exhibit No. 2307–A" and is included in the appendix on p. 8330.)

Mr. **Brown**. I call attention to letter of December 21, 1915, again from Harris, Forbes & Co., addressed to J. P. Morgan & Co.

Mr. **Lamont**. What date?

Mr. **Brown**. December 21, 1915, from Harris, Forbes & Co., to J. P. Morgan & Co. I do not know if it is in your book, Mr. Lamont. I offer it for the record.

(The document referred to was marked "Exhibit No. 2308" and is included in the appendix on p. 8331.)

Mr. **Morgan**. What is it about?

Mr. **Lamont**. You discontinued this method of centralized advertising.

Mr. **Whitney**. You mean advising us to?

Mr. **Brown**. Yes.

Mr. **Whitney**. Could I see a copy of it?

Mr. **Brown**. Certainly. The fifth paragraph is the significant one. There is another letter of January 6, 1916.

Mr. **Lamont**. Let us look at this first one, please, Mr. Brown.

Mr. **Brown**. Certainly.

Mr. **Lamont** (after reading document). Yes.

Mr. **Brown**. Letter of January 6, 1916, saying [reading]:

> The committee feels that any advertising which may be done, in order to be effective, must carry some signature. * * *

This is touching the record about centralized advertising.

Mr. **Whitney**. There is no question about the centralized preparation.

Mr. **Brown**. That letter is offered for the record.

(The document referred to was marked "Exhibit No. 2309" and is included in the appendix on p. 8331.)

Mr. **Brown**. I call attention to a letter of October 8, 1915, to Fairfax Harrison, which is offered for the record.

(The document referred to was marked "Exhibit No. 2310" and is included in the appendix on p. 8332.)

Mr. **Brown**. That letter of October 8, 1915, reads in part as follows [reading]:

> Attached hereto is a statement which a number of eminent gentlemen in this country have expressed their desire to sign and which, if you approve, we should be very glad to have your name added to. The Anglo-French loan is of such great importance to the country and the opinions of its leading citizens

are at this juncture of such moment that it has been deemed wise to gather up various opinions, put them in the form of one concise statement, and then have that statement signed by various leading men.

Those who have already expressed a desire to sign are James J. Hill, Howard Elliott, Henry L. Higginson, Theodore N. Vail, Robert T. Lincoln, Seth Low, and others.

Was it your custom to try to get up a list of prominent names of people who approved of this loan?

Mr. Lamont. There was no custom about it. You see, Mr. Brown, this was a special loan, which had features of its own, and was outstanding. On this one loan we undoubtedly were glad to arrange to receive endorsements from these eminent gentlemen. We never did before or since, that I know of, but there was no reason why we should not.

Mr. Brown. I offer for the record two letters, one of October 28, 1915, and one of November 5, 1915, which indicate that it was the custom in selling this loan to have contact with various fraternal orders and to use their membership lists.

Mr. Whitney. British and Scotch.

Mr. Brown. Yes, sir.

(The documents referred to were marked, respectively, "Exhibits Nos. 2311 and 2312" and are included in the appendix on p. 8332.)

Mr. Brown. I have a letter from Mr. Fischer, Bonbright's agent in Paris, to William P. Bonbright, of July 20, 1915, which I offer for the record with appropriate number.

(The document referred to was marked "Exhibit No. 2313" and is included in the appendix on p. 8333.)

Mr. Brown. That letter reads in part as follows:

My Dear Mr. Bonbright: I wrote you last on July 19. Yesterday I dined with a friend of mine—

Mr. Lamont. What is the date?

Mr. Brown. July 20, 1915.

Mr. Lamont. Thank you.

Mr. Brown (continuing reading):

Yesterday I dined with a friend of mine who is well posted on the financial situation here and particularly on the Franco-American situation. He has been the last 3 years director of the Banque Privee and has lately joined Messrs. Morgan, Harjes & Co.—

As a partner of Morgan, Harjes?

Mr. Lamont. Not partner.

Mr. Brown. It says he had lately joined. It does not say he became a partner, but joined [continuing reading]:

Speaking in a general way of the Franco-American financial situtiou my friend was of the opinion that you will in America come by and by to the idea of financing European requirements with much greater facility than now.

He mentioned a possible operation of England and France jointly, operation which has not taken place yet because the English find money easily on much cheaper terms and conditions in their own country. * * *

I am telling you all this to show you how everybody is following with the keenest interest this financial situation and how the largest banks in France are trying to decide their American connections to finance European requirements. It is certain that American financiers have not yet taken a decided position in this war, which is no doubt particularly due, besides commercial reasons, to the attitude of your Government, * * *

Now, in contrast with that, or on that matter, I would like to call your attention again to what was put in the record, your remarks on the Life of Mr. Davison, that the final result was deemed by the whole American community a great triumph for the Allied cause.

(Extract from Henry P. Davison, "The Record of a Useful Life", by T. W. Lamont was marked "Exhibit No. 2314" and is included in the appendix on p. 8335.)

Mr. **Brown**. Was it a great triumph for the Allied cause because it marked the definite commitment of the American financial community to the cause of the Allies?

Mr. **Lamont**. I would not have gone as far as that, I do not think, Mr. Brown.

Mr. **Brown**. Wherein was it a definite triumph for the Allied cause?

Mr. **Lamont**. When you pull a man's book on him, he is at a disadvantage ordinarily [laughter]. What I mean to say is this, Mr. Brown:

When I wrote that phrase—and I wrote it years ago, although the book came out only 2 or 3 years ago—what I undoubtedly had in mind was that at that time the great preponderant sympathy in America was for the Allies, and since the two great leading Allied Governments had been able to arrange this notable loan, against various odds and in an amount that we had considered very, very heavy, as we have pointed out, I considered that as quite a triumph. That is about all I meant.

Mr. **Brown**. Thereafter a great many investors were holding Anglo-French bonds that they could not dispose of except at a serious loss?

Mr. **Lamont**. Wait a minute on that. The Anglo-French loan, as I say, you have been pointing out that on that particular loan issue it was distributed to the bondholders very slowly; I mean to say to private investors very slowly; so that the amount in the hands of private investors until after 6 months had elapsed was comparatively limited.

As I said before, the total number of American investors in all these Allied loans then and thereafter only amounted to four or five hundred thousand.

Mr. **Brown**. My question was that there was no way of getting out of this loan except at a loss, was there?

Mr. **Lamont**. The bonds had shown an initial decline, certainly, but, Mr. Brown, in that connection, let me point out this to you, because it has come up here so often, the point has come up here so often, in this sense: That it is not likely that American investors in these Allied loans had put everything they had in the world in those loans.

Mr. **Brown**. If I do that, it is my mistake.

Mr. **Lamont**. That is the impression. And, therefore, they were very much worried about them. There was nothing like that in the situation. No prudent investor, unless he was an absolute fool, would put anything but a small portion of his savings in any one investment. So that, so far as any particular sentiment on that ground is concerned, I never thought it amounted to very much.

Mr. **Whitney**. Mr. Brown, as a matter of interest, the low, up until April 1917, when we got into the war, the lowest price they touched was 90 on February 17, and went back to 93¾, and the low before that was 92½ in January, taking it by months, so that after all they had a 10-percent low, it is true, but that was in the months before going into the war, and afterward they went much further down.

Mr. **Lamont**. Of course, it would be just as fair to say that, Mr. Brown, in connection with the American investment in Liberties 4¼, which went down 18 points.

Mr. **Whitney**. It is largely a matter of money rates. Of course, they did have that situation.

Senator **Clark**. What about Liberty bonds?

Mr. **Lamont**. The 4¼'s went down to 82 in 1920.

Senator **Clark**. Of course that was after the Allies had gotten into us for billions of dollars, was it not?

Mr. **Whitney**. The money rates went up.

Senator **Clark**. That is perfectly natural, after the Government of the United States had loaned billions and billions of dollars to those nations, and it became apparent at that time that we were never going to get all of it back, that American bonds would sell off.

Mr. **Morgan**. May I say, also, Senator, that it is perfectly natural, if you have got too many securities to be digested at once, that there should be a period when they go down below their cost price?

Senator **Clark**. That is perfectly true.

Mr. **Morgan**. They glut any market.

Senator **Clark**. It is perfectly true that these bonds had been issued with the understanding that billions of dollars, which were then issued for the purpose of loaning money to the Allies, were to be repaid by the Allies. As the Allies evinced a disinclination to pay back the money they had borrowed, the natural effect of that would be felt on the American bond market.

Mr. **Morgan**. I do not know how much was said about it, but I do not think anything was said about the Allied loans. I was on the Liberty Loan committee, and I do not recall anything being said that the bonds would be taken care of in part by the Allied Governments.

Senator **Clark**. They were loans to the Allied Governments, which were to be paid. That was certainly the understanding between the Allied Governments and the United States Government, that they were to be paid, and as the Allies showed a disinclination to pay their debts, naturally it affected the credit of the United States, who loaned them the money.

Mr. **Lamont**. Senator Clark, this is an important point to bring out: The two chief Allies were not in default in their debts until December 1931.

Senator **Clark**. I read propaganda to that effect before we came home from France in the Army.

Mr. **Lamont**. I do not know anything about that.

Senator **Clark**. The French early showed a very great disinclination to pay. I heard Mr. Clemenceau make a speech in St. Louis in 1920, I think it was, in which he vigorously upbraided the United States for suggesting the collection of those debts.

Mr. **Lamont**. You say that the decline in general of the bond market in the United States, including Liberty bonds, was due to a rumor in 1920 that the Allies might default in making their payments?

Senator **Clark**. I think that would be perfectly natural, if they should; yes, sir.

Mr. **Lamont**. When, as a matter of fact, it was only 10 years later, or 11 years later, that they defaulted. You and I deplore the default equally, but it is only fair to point out that the default occurred 11 years later.

Senator **Clark**. That is perfectly true, and nobody has contended to the contrary; but in the agitation, as long ago, I think, as 1923, Americans were being mobbed in Paris for the suggestion on the part of the United States that they would like to have those obligations met, and that agitation has been continuing ever since the war.

Mr. **Lamont**. Of course I do not want to labor the point too much, except I would like to point out that there was a decline in all sorts of bonds, industrial, railroad, and all that sort of thing in 1920; and, speaking of this intimation on the part of the Allied Governments, what has that to do with the situation which took our bonds down?

Senator **Clark**. I think that is perfectly natural, considering the situation as a whole, Mr. Lamont, that that was one contributing cause; but it is perfectly natural that with this tremendous investment which had been built up during the war, both before and after we got into it, together with the question of tremendous expansion and industrial development, the overbuilding of plant capacity, which was absolutely useless in normal times, it would naturally make for a reaction at the conclusion of the war.

Mr. **Whitney**. Senator Clark, there was never at that time the slightest question of impairment of United States credit. It was the money condition; and the best risks in the country had to pay 7 percent in 1921, take Bell Telephone of Pennsylvania, which put out 7-percent bonds, because I remember them; and at that time there was no question of United States credit being impaired, but merely a matter of money rates, which came about in the contraction of credit, but there was never any question at that time that the United States credit was impaired. It was not instanced by that doubt or by any doubt at that time.

Mr. **Brown**. That renders the Anglo-French loan quite worthless. There was a business depression in the winter of 1915 and '16.

Mr. **Whitney**. But there was a tightening of money rates.

Mr. **Brown**. The rate was often well below 9 percent and the Anglo-French never sold above 96.

Mr. **Whitney**. I grant that. There is no argument about that.

Mr. **Brown**. There is no comparison between the two.

Mr. **Whitney**. Not the slightest except economic conditions govern the situation to some extent.

Mr. **Morgan**. A glut in the market always causes such an effect.

Senator **Clark**. What was the glut in the market?

Mr. **Morgan**. The $500,000,000 issue would take a long time to place and get it out.

Senator **Clark**. That is not because it glutted the market?

Mr. **Morgan**. It glutted the market at that time.

Senator **Clark**. The United States Government was not putting out loans at that time.

Mr. **Morgan.** When Liberty Loans came out and you got 10 times as many people to invest in such things as ever did before, you also glut the market, and it could not be helped.

Mr. **Lamont.** In 1927, the Federal Reserve bank rate went up to 7 percent, and confirms the story which Mr. Whitney says.

EMBARGOES AND MUNITIONS PRICES

Mr. **Raushenbush.** Mr. Chairman, there are a few questions on the record which I would like to straighten out, if I can. Would any of you gentlemen care to fix about the time in those neutrality years, from 1914 to 1917, when any cessation of war, any sudden cessation of the war, or the equivalent, to wit, an embargo on munitions, would have given the economic life of the country a very stiff jolt? About when were we so involved, in other words, in this munitions business, that if things were suddenly banged shut, if we could put on an embargo and everything was suddenly stopped, that the country would have gotten a very stiff economic jolt. Could you fix that time in your own memory?

Mr. **Lamont.** That is a very academic question, is it not, Mr. Raushenbush. We all know during the autumn of 1916 that talk of peace was becoming stronger and stronger.

Mr. **Raushenbush.** In the autumn of 1916, the late autumn of 1916. The talk about peace was becoming stronger and stronger, and people were hoping that Mr. Wilson might succeed in his efforts to be a mediator, we will say, and the general talk about peace at that time I recall very distinctly was having an effect on people. They said quite philosophically, "That is fine. Let peace come along. That means a temporary let down in these foreign orders—O. K."

The **Chairman.** Incidentally, that was the same autumn when a Presidential campaign was on, was it not?

Mr. **Lamont.** Certainly, certainly. But, as I am reminded, Senator, the peace talks were almost all subsequent to this election, being in late November.

Mr. **Raushenbush.** Mr. Lamont, do I take the purport of your answer to be, that, if any cessation of munitions shipments had happened, even as late as the fall of 1916, it would not have given the economic life of the country a very severe jolt? Do I understand you correctly?

Mr. **Lamont.** No; I would not make any categorical utterance like that, Mr. Raushenbush, but I do not exactly see the point of what you are trying to get at.

Mr. **Raushenbush.** All right.

Mr. **Lamont.** If you can conceive of our Government saying: "From tomorrow morning on, at 10 o'clock, there shall be no further shipments of wheat or cotton, or copper, or manufactured goods, including munitions, abroad", why, of course, it would cause a jolt. Why not?

Mr. **Raushenbush.** You touched me on the raw here, a minute ago, quite unintentionally, I am sure, Mr. Lamont.

Mr. **Lamont.** I am sorry.

Mr. **Raushenbush.** When you suggested I was asking an academic question. I once had the misfortune to teach school in college for a year, so that I have got an aversion to academic questions, and I never ask them. It was a very real question. The question came to me in looking at a letter from your export department to du Ponts, dated April 22, 1915, and I think I better read it, because apparently the British War Office had envisioned a possibility of that sort of a stoppage.

Mr. **Lamont**. I did not get that.

Mr. **Raushenbush**. I am going to read it, because apparently, at that time, in April 1915 the British War Office had envisioned that there might be an embargo by the United States Government on munitions.

Mr. **Lamont**. Somebody introduced a resolution to that effect; did they not?

Mr. **Raushenbush**. They may have.

Mr. **Lamont**. Senator Hitchcock.

Mr. **Raushenbush**. The answer to that, to which I want to come immediately afterward, seems to indicate at least a little bit that the munitions companies were a little bit involved. Just let me read the letter.

Mr. **Lamont**. Please.

Mr. **Raushenbush** (reading):

April 22, 1915.

E. G. Buckner, Esq.,
Vice President, E. I. du Pont de Nemours Powder Co.,
Wilmington, Del.

Dear Sir: In connection with the order just placed with you for 6,000,000 pounds nitro cellulose powder, we ask that in preparing the contract you embody a clause somewhat along the following lines:

"It is agreed that if by reason of an embargo the powder hereby contracted for cannot be exported from the United States, the buyers, at their option, may terminate this agreement, but in such event the sellers shall be entitled to receive the unpaid purchase price of any powder then actually manufactured and accepted or ready for acceptance hereunder, and the sellers shall further be entitled to retain or receive a sum sufficient to cover the actual expenditures and outstanding obligations of the sellers made with respect to powder contracted for hereunder but not so manufatcured and accepted or ready for acceptance at the time of such termination."

We have been asked by the War Office to incorporate a clause somewhat similar to the above in all contracts that may be closed from now on.

Yours truly,

Export Department,
By ——— ———.

(The document referred to was marked "Exhibit No. 2315" and appears in full in the text.)

Mr. **Raushenbush**. Considering the question is being raised there by your export department, by Mr. Stettinius, on request of the British War Office, asking du Ponts to put in that sort of protective clause into their contracts at that time. That is right, is it not?

Mr. **Lamont**. Would you mind putting that question again, Mr. Raushenbush?

Mr. **Raushenbush**. On April 22, 1915, Mr. Stettinius, in your export department——

Mr. **Lamont**. Yes.

Mr. **Raushenbush** (continuing): On the request of the British War Office——

Mr. **Lamont**. Right.

Mr. **Raushenbush** (continuing): Was asking du Ponts to do that.

Mr. **Lamont**. Right.

Mr. **Raushenbush**. Then on April 27, 1915, we find a letter from E. G. Buckner, vice president of the du Pont Co., addressed to you, Messrs. J. P. Morgan & Co., as follows (reading):

> E. I. du Pont de Nemours Powder Co.,
> *Wilmington, April 27, 1915.*
>
> Messrs. J. P. Morgan & Co.,
> *New York City.*
>
> Gentlemen: I enclose herewith agreement in duplicate between His Britannic Majesty's Government and this company covering 2,000,000 pounds of trinitrotoluol. Please sign and have executed both copies of the agreement, and return same to this office when we will have them executed on behalf of this company, and return one copy for your files.
>
> In reply to your letter of April 22 with request for a change in our contracts relative to an embargo clause, will say that this matter has had our careful consideration, but we find ourselves unable to meet your views. It is necessary for us to make large commitments for raw materials, which are now at high prices, in order to be certain of the deliveries which are required. These contracts cannot be canceled nor could the material be used by us in other contracts; so that we are committed. In addition to this we are obliged to construct, or to hold in readiness, factories which cannot be turned to other purposes and we could not command a requisite operating force were we at liberty to cancel contracts and close factories at a moment's notice. Moreover, were such action taken as a result of a temporary embargo on the manufacture of powder, it would be impossible to reassemble the operative force at a later date; a difficulty much to the disadvantage of your principal.
>
> Your truly,
> E. G. Buckner, *Vice President.*

(The document referred to was marked "Exhibit No. 2316" and appears in full in the text.)

Mr. **Raushenbush**. Now, the question there is, Mr. Lamont, in April, did not du Ponts, at least, as one of the chief munitions manufacturers, find themselves so committed that they would not even accept these fairly reasonable terms by the British Government? They just painted a picture there that their commitments had extended out through the whole country, and that if they were canceled, the jolt all around the place would be terrific. Is not that fairly true, that that was happening to du Ponts?

Mr. **Lamont**. I do not see any reason to question that.

The **Chairman**. Cannot we agree that an embargo at that time would have wrought havoc throughout industry?

Mr. **Lamont**. A sudden embargo, Senator, at any time, would have been very upsetting; no doubt about it.

The **Chairman**. At any time after we had sought to gain any share of the profits or the commerce that flowed from the war abroad?

Mr. **Lamont**. Of course, Senator, I think it would have been not only upsetting at any time during the period which you indicate, but I think it would have been simply calamitous for these United States, if it had been put on at the beginning of the war, for the reason that we were already in a depression and quite a serious depression, you will recall, during the latter part of 1912, 1913, and the early part of 1914, and it was only the increase of our export trade at that time that took us out of that depression.

The **Chairman**. I could not agree with you totally on that score, Mr. Lamont, but in disagreeing and taking up the matter between us we would only get back into a debate again which would be quite removed perhaps from the record.

Mr. **Lamont.** Fine.

Mr. **Raushenbush.** There was another question which came along a little later in March. Did you, representing the British, ever find that the American manufacturers were insisting on what you and they considered exorbitant prices for their munitions?

Mr. **Whitney.** What year is this?

Mr. **Raushenbush.** In 1916.

Mr. **Whitney.** Have you got reference to the question of a 5 percent tax, the tax question?

Mr. **Raushenbush.** No; I just want to know, as a general impression, as to whether you and the British had had that impression, that the American manufacturers were charging very exhorbitant prices.

Mr. **Lamont.** I think there is some talk every now and then, in the course of the discussions Mr. Stettinius was having with American manufacturers, that he thought, in this way and in that way, the prices were too high. Is not that in the record?

Mr. **Raushenbush.** Not yet.

Mr. **Lamont.** Are there not cases of that?

Mr. **Raushenbush.** There is one case here, which we want to ask about, and perhaps you can throw some light on it, but I was asking the question as to how general it was.

Mr. **Lamont.** Of course, between the buyer and the seller, there is bound to be not always perfect accord as to what is the correct price.

Mr. **Whitney.** I think the fair answer is that there were certain cases, yes; but as a general question, no. That is of course, what I have been told.

Mr. **Raushenbush.** Could you mention those cases?

Mr. **Whitney.** I could not, because I did not have anything to do with the export department. [Conferring with associates.] Apparently not.

Mr. **Raushenbush.** Here we have only one, of Midvale Steel, and I call your attention to a telegram from Morgan in London to G. W. Bacon, March 28, 1916. It is labeled no. 14974.

Mr. **Whitney.** I remember that.

Mr. **Raushenbush.** It reads:

> Appreciate your prompt reply which was discussed with authorities yesterday morning. Price of $30,500 each for 100 howitzers which Midvale Steel Co. now ask is considered exorbitant, particularly as their former price of $27,500, as Corey will recall, was regarded by Sir H. F. Donaldson as excessive.

I think there is nothing further in that telegram of interest, unless you see something.

Mr. **Whitney.** Except it has got a rather interesting paragraph there.

Mr. **Raushenbush.** Go ahead.

Mr. **Whitney** (reading):

> Confidential, for your information only, manufacturing facilities have increased enormously here and under system of controlled factories prices have been and are being greatly reduced.

Mr. **Raushenbush.** That paragraph you have just read there supposedly gave an excuse for pressure, if you will, or getting these American manufacturers to come down in their prices.

Mr. **Whitney.** This is from Mr. Stettinius, who was in England at that time.

Mr. RAUSHENBUSH. Let that be introduced.

(The document referred to was marked "Exhibit No. 2317" and is included in the appendix on p. 8335.)

Mr. RAUSHENBUSH. This, I think, will be of some significance to the committee, Mr. Chairman, being a cablegram dated March 29, 1916, from Morgan in New York to Morgan in London. It reads in part as follows:

> For E. R. Stettinius. 8-inch howitzers: Have conferred fully with officials Midvale Steel Co., who state it is impossible for them accept suggestion of $26,000 per gun, including bonus of $750 for deliveries within 10 months from date of order. The reasons for declining this suggestion are as follows:
>
> (1) The actual shop cost of gun, including carriage and limber and amortization of plant they estimate under most favorable manufacturing conditions at $26,000.
>
> (2) Any price now accepted from British Government would necessarily form price basis for future manufacture for United States Government.
>
> (3) United States Government have recently purchased 6-inch howitzers, including carriage and limber, comparable with the 8-inch guns in every way except as to size, at $30,425 each.

The CHAIRMAN. What are we to gather from this; that the United States Government was having to pay more at that hour for its munitions than Great Britain was paying for its?

Mr. LAMONT. Senator, if you will look further along in that cable, it says:

> Delivered your cable in entirety to W. E. Corey, yesterday, who then stated very frankly would meet your views even though he did not make a dollar on the order, provided on investigation he did not find this would jeopardize future relations between Midvale Steel Co. and United States Government. He now finds, as above outlined, that such relations would be seriously affected by accepting your suggestion and therefore states you may regard their offer herein as Midvale Steel Co.'s last word.

Mr. RAUSHENBUSH. That is $27,500.

Mr. LAMONT. Does not that answer your inquiry, Senator?

Mr. RAUSHENBUSH. Let us go on with it [reading]:

> We would add for your information that, in hearing before Committee on Naval Affairs, United States Senate, last week, strong pressure was brought to bear on American manufacturers, charging discrimination against the United States Government in favor of foreign governments for whom work had been done at lower prices.

Mr. WHITNEY. Is not the net of that, Mr. Raushenbush, that Mr. Stettinius wires Mr. Bacon, who was in charge in his absence, that he thinks the price of $30,000, which apparently was the price they were quoting for the Government, was too high?

Mr. RAUSHENBUSH. We have got a letter to maintain that. This, by the way, is from Mr. Bacon to Mr. Stettinius.

Mr. WHITNEY. This one was, but the other was from Mr. Stettinius to Mr. Bacon.

Mr. RAUSHENBUSH. He says that the United States Government is paying $30,425 for a comparable gun, and therefore no reason why Midvale does not feel itself free to take a very much lower price from the British Government, as a result of large scale orders, as it would jeopardize their future arrangements with the United States Government. In other words, the significant thing seems to be that they want to keep their price to the Government up. That is the point that we get out of it. They do not want to get under that.

Mr. MORGAN. This is what is stated by the officials of the Midvale Steel Co. We do not know anything about that.

The CHAIRMAN. That is clearly understood.

Mr. MORGAN. We had nothing to do with it.

Mr. RAUSHENBUSH. It went through your export department, and you passed it back and forth.

Mr. MORGAN. We transmitted it, but we are not responsible for the statement that price was the reason. They gave that as their own reason.

Mr. RAUSHENBUSH. That letter is offered for the record.

(The document referred to was marked "Exhibit No. 2318" and is included in the appendix on p. 8336.)

The CHAIRMAN. Was it probable that Midvale was contemplating large-scale orders from the United States Government?

Mr. MORGAN. I have not an idea what was contemplated or what was not.

Mr. WHITNEY. It says it is for 100 howitzers for the British Government, does it not?

Mr. RAUSHENBUSH. Yes.

The CHAIRMAN. What was the situation closer to home at that time, that was occasioning the United States contemplating a little better preparation?

Mr. MORGAN. I do not know.

The CHAIRMAN. Was that the Mexican matter?

Mr. MORGAN. Was it Mexico?

The CHAIRMAN. Exactly.

Mr. MORGAN. I do not know.

Mr. RAUSHENBUSH. Mr. Chairman, the Committee might at some time want to consider that price arrangement with the United States Government, with fairly high prices for few pieces, as a possible means of throwing some light on the future of the munitions industry in this country during the years following the war.

The CHAIRMAN. Exactly.

Mr. MORGAN. That statement, and the price, and the whole thing, rests entirely on the Midvale people, and we have nothing to do with it at all.

The CHAIRMAN. The Committee understands that.

Mr. LAMONT. I am not a military man, but was it ever contemplated to use howitzers in Mexico?

The CHAIRMAN. I am sure I do not know.

Mr. MORGAN. I do not know.

The CHAIRMAN. I have never been charged with being a military man either.

Mr. RAUSHENBUSH. They seem to be using them in Ethiopia at the moment, Mr. Lamont.

Mr. LAMONT. Not of this type.

Mr. RAUSHENBUSH. Not of that type.

I want to turn to a cable from Morgan in London, dated March 13, 1916, for H. P. Davison. I will offer it for appropriate number.

(The document referred to was marked "Exhibit No. 2319" and appears in full in the text.)

Mr. RAUSHENBUSH. That cable reads:

> 14685. Denkstein for H. P. Davison. Suggestions are being made here that the possibility of intervention by United States Government in Mexico will re-

sult in requirements for munitions of war by United States Government which will greatly delay fulfillment of contracts for British Government and Allies. It has even been suggested United States Government is already placing orders with Remington Arms U. M. C. Co., Midvale, Eddystone Ammunitions Co., and others, and that this policy is being supported by German intriguers.

Please cable whether you believe there is any truth in these suggestions or whether you think United States action as regards Mexico is likely to develop in such a way as to interfere with British Government contracts.

Does it really seem there as if preparedness for the United States, rather than for the Allies, could be possibly labeled as German intrigue, German propaganda?

Mr. LAMONT. What is that?

Mr. WHITNEY. The next cable, no. 15686, answers it, I think.

Mr. RAUSHENBUSH. I was asking about the German question.

Mr. WHITNEY. I cannot see that was ever answered. That was an inquiry, was it not?

Mr. RAUSHENBUSH. This is something from Morgan in London, in which it says that it has been suggested that the reason the United States was putting out orders with these various companies was because of German intrigue, apparently, to get the United States prepared. It is the first time I ever heard our preparedness discussed as pro-German.

Mr. MORGAN. It was a suggestion made in London. That is all we know about it.

Mr. RAUSHENBUSH. It was an English suggestion, that if the United States got itself prepared, it would be pro-German?

Mr. WHITNEY. That must have been it.

Mr. LAMONT. I would not attach too much importance to that, Mr. Raushenbush. This is probably some little question asked by somebody in the War Office.

The CHAIRMAN. As we go along, I think you will find, Mr. Lamont, that the Committee is justified in placing more importance upon that than might now seem to be the case.

Mr. LAMONT. I see.

Mr. RAUSHENBUSH. Mr. Chairman, Mr. Baker, who was Secretary of War, made some statements about this which I think were put in the record yesterday,[1] that at the time we entered the war, the munitions manufacturers could not have been said to have gotton us in because there were none. That was his statement, and might have some bearing.

Mr. MORGAN. Won't you put in the answer to that telegram?

Mr. RAUSHENBUSH. I am on the point of doing so, Mr. Morgan. As soon as I got through with my interchange with the chairman, I was going to read that.

On March 14, 1916, to Morgan in London, signed by H. P. Davison. I will offer that for the record with appropriate number.

(The document referred to was marked "Exhibit No. 2320" and appears in full in the text.)

Mr. RAUSHENBUSH. That reads as follows:

15686, 14685. DENKSTEIN. Have conferred with Remington Arms-U. M. C. Co., Midvale Steel Co., Bethlehem Steel Co., and Eddystone Amm. Co., who advise us that they see no indication that such contracts as the U. S. Government may place for their requirements even if augmented by Mexican situation will in any way affect present contracts between these companies and British Government. In fact, they go further and state that in their opinion any contracts made by them with British Government will be filled whatever the requirements of U. S. Government may be. We understand that up to present time U. S. Government have gone no further than to make tentative inquiries of most general character for shells and field artillery. From our present knowledge we believe it is unlikely that further delays in execution of British contracts here will be incurred due to requirements of U. S. Government with respect to Mexican situation. H. P. DAVISON.

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[1] "Exhibit No. 2165", Hearings, Part XXVI, p. 7790.

There seems to be an indication here that in fact the contracts made by those four companies, Remington Arms U. M. C., Midvale, Bethlehem and Eddystone will be filled regardless of what the requirements of the United States may be.

I turn to a further letter——

The CHAIRMAN. Is it unfair to draw that conclusion?

Mr. LAMONT. I think so.

Mr. WHITNEY. That they will be able to take care of both?

Mr. LAMONT. That is all.

The CHAIRMAN. That is not what it says; that the British orders would be filled, whatever the requirements of the United States may be.

Mr. WHITNEY. They were under contract. There is nothing there that they would not fulfill United States Government contracts.

Mr. RAUSHENBUSH. Let us go on, Mr. Chairman.

The CHAIRMAN. Yes, sir.

Mr. RAUSHENBUSH. On June 23, 1916, there was a letter from E. W. Moir to Morgan & Co. We have already identified E. W. Moir as the agent in America for the British Ministry of Munitions of War.

Mr. LAMONT. Technically; yes sir. What is the date of that?

Mr. RAUSHENBUSH. June 23, 1916. The heading is "Midvale Steel Co. 12″ shell contracts." I will offer it for the record.

The document referred to was marked "Exhibit No. 2321" and appears in full in the text.)

Mr. RAUSHENBUSH. It reads in full as follows:

(Attention of Mr. Sneddon. Midvale Steel Company 12″ shell contracts.)

DEAR SIRS: As you are no doubt aware, the above company are at present manufacturing shell in a portion of one of their old machine shops, and they are now installing new machinery in a building recently erected for this purpose. We have always understood that it was the intention to continue working the existing plant on British 12″ shell after the new shop is finished, until the completion of the contracts, but now I am informed that the company intend turning over existing machines and the labor employed on same on to the manufacture of shell for the American Government. This means, of course, that unskilled labor is going to be put on the manufacture of 12″ British shell, and in consequence it appears that deliveries for some considerable time will remain unsatisfactory. The company have not notified me officially to this effect, but my tracer heard this on his last visit, and I am informing you so that you will be aware of the position.

Yours faithfully,

Was he not complaining there for the British Ministry of Munitions of War that the United States might get priority here over the British shells?

Mr. LAMONT. I do not see it was a complaint. He was stating a fact, was he not, Mr. Raushenbush?

Mr. RAUSHENBUSH. That will be explained. July 22, 1916——

Mr. LAMONT. Of course, we all know, Mr. Raushenbush, do we not, that in the event of emergency, the United States Government would always be able, under the law, to requisition its supplies from any American manufacturer?

Mr. **Raushenbush.** Mr. Lamont, let me interrupt this discussion, for only a brief minute to state this:

What we do know from the results of the testimony of the War Department officials before this Committee, at length, is that while the United States always has the power to requisition, yet they did not use it once during the Great War, although they felt under provocation a great many times to use it. I think I am quoting accurately Colonel Harris' testimony. And when they testified as to why they did not use it, they developed that they did not have the personnel to take over the plants and run them, and that they are in that situation today. So that while there is a legal power, there is no practical power.

This is in answer to your comment there. I think you will find that running through the testimony.

Mr. **Lamont.** Yes, sir.

Mr. **Raushenbush.** July 22, 1916, a letter from your export department by E. R. Stettinius to A. C. Dinkey, Esq., President, Midvale Steel Co., Philadelphia, Pa. I will offer that for the record with appropriate number.

(The document referred to was marked "Exhibit No. 2322" and appears in full in the text.)

Mr. **Raushenbush.** It reads as follows:

[Copy to Mr. J. P. Sneddon]

Dear Sir: We beg to acknowledge receipt of your letter of the 20th, confirming your phone conversation in regard to 12-inch shells, and submitting a schedule of estimated deliveries under orders that heretofore have been placed with you. We have transmitted your offer to the British Government, and if they conclude to accept it, we have no doubt that they will insist that you satisfy E. W. Moir's organization of the adequacy of your manufacturing program and arrangements.

We are advised by the inspection department that they are much disappointed in your deliveries. We understand they are of the opinion that you have failed to keep the promises you made to Mr. Moir on the occasion of his visit to Philadelphia some months ago.

Have you accepted any orders from the United States or Italian Governments, the execution of which has interfered or may interfere with the orders you have received?

Yours truly,

That is simply an inquiry, is it not, asking if they had received United States or Italian orders and pointing out that they were delayed in their deliveries?

Then I want to offer for the record a letter dated July 27, 1916, signed by E. W. Moir and addressed to Morgan & Co., attention Mr. Stettinius.

(The document referred to was marked "Exhibit No. 2323" and appears in full in the text.)

Mr. **Raushenbush.** That reads as follows:

Dear Sirs: With reference to additional 25,000 12-inch shells to be placed with the Midvale Steel Co., their Mr. Dinkey and Mr. Barba called on me today and assure me that they will put in sufficient plant to increase their capacity of 150 per day to 200 per day. This, combined with 1,000 per month from the General Electric Co., will give them 6,000 per month in all after November, and this should be sufficient to finish up their present contracts and the new one by March 31.

They assured me that they have given up the idea of turning over the old shop to the United States Government shells and that they will put their whole capacity on the British order, except to the extent of four lathes which will be used for the United States.

They are fully aware of the lack of efficiency in their output at the present time and have been taking steps since the 4th of July to efficiently organize their plant and propose visiting some of the more efficient plants in this country so that they may improve their output. If this is done, I see no reason why they should not reach the outputs they mention as they have the capacity for 150 per day now, and with the increase which they propose installing at once of 33⅓ percent I would be quite satisfied.

Yours faithfully,

Is not the purport of that letter this: That Moir informs Morgans that Midvale would give up the idea of giving the preference to the United States Government, except to the extent of four lathes?

Mr. WHITNEY. That is what it says.

The CHAIRMAN. It does? That is the purport of it, is it not?

Mr. WHITNEY. Yes; but there is no indication that that is not sufficient for everything the United States needs.

Mr. RAUSHENBUSH. In reply to that, I offer a letter from A. C. Dinkey, President of the Midvale Steel Co., to J. P. Morgan & Co., dated July 29, 1916, attention Mr. Stettinius.

(The document referred to was marked "Exhibit No. 2324" and appears in full in the text.)

Mr. RAUSHENBUSH. That letter reads, in full, as follows:

GENTLEMEN: Replying to Mr. Stettinius' letter of July 22, we beg to advise that we are preparing equipment and will surely have it in operation definitely to bring the weekly production of 12-inch projectiles up to 1,200 per week, and we believe that Mr. Moir's department is satisfied that this production will be reached and maintained.

We have accepted no orders from either the Italian Government or the United States Government, the execution of which has interfered or may interfere with orders we have taken for English projectiles. On the contrary, in order to further production of English projectiles on orders which we have on hand, we have seriously delayed the completion of orders for American projectiles which were placed long prior to your orders and on which delayed orders we are paying penalties in serious amounts.

Yours very truly,

Is it not fairly clear that Midvale says they have delayed the completion of American shells in order to give the British preference? Take the last paragraph.

Mr. WHITNEY. It was issued long before our orders.

The CHAIRMAN. That is neither here nor there. The facts were that whatever the emergency might have been, the Midvale people were continuing and giving positive assurance of a continuation of British deliveries, in spite of orders that had been placed by the United States Government.

Mr. LAMONT. Have you had the Midvale people on the stand, Senator?

The CHAIRMAN. No; we have not.[1]

Mr. RAUSHENBUSH. This went through Morgan & Co.

The CHAIRMAN. This went through your export department?

Mr. LAMONT. We cannot testify on that, except what is in the record.

Mr. MORGAN. We cannot testify on that.

Mr. RAUSHENBUSH. Is there any other case which you know of, where a sort of divided loyalty came up where their big business was in foreign orders, and small business in Government orders? Our Government was still in the place where it was ordering individual units, small units, but the large-scale production or mass production, if you will, was foreign business, and we happened to run into this instance which seemed to be a clear case of somewhat divided loyalty.

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[1] For testimony of Midvale officials see Hearings, Part XXXVI.

Mr. WHITNEY. Loyalty?

The CHAIRMAN. I would say so.

Mr. RAUSHENBUSH. Whom were they going to manufacture for, their own Government or someone else?

Mr. WHITNEY. What is there to indicate they held up the United States Government unduly? I do not know.

Mr. LAMONT. We cannot comment on that. This is the first time I have ever seen those cables, Mr. Raushenbush, and perhaps the same remark applies to Mr. Morgan.

Mr. MORGAN. It does. At any rate, I suggest that we have no knowledge of anything whatever except what is in that letter written to us by the Midvale people, assuring us that a certain contract they had made with us would be carried out, at any rate.

The CHAIRMAN. Regardless of what orders might be in the way, having been placed by the United States Government?

Mr. MORGAN. We received the assurance from them. It is not necessary for us to arrange for business. I do not see why we should be held to blame for that.

Mr. RAUSHENBUSH. Mr. Morgan, all that we are asking for is information.

Mr. MORGAN. We have not got any.

Mr. RAUSHENBUSH. You seem to think that in every question we ask that we are trying to hold somebody to blame, but we are trying to find out the mechanism or the function.

The CHAIRMAN. The Committee will be in recess until 2 o'clock.

(Thereupon, at 12:10 p. m., the Committee recessed until 2 p. m. of the same day.)

AFTER RECESS

(The hearing was resumed at 2 p. m.)

FURTHER TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, AND GEORGE WHITNEY

SMALL LOANS OF 1915 [1]

The CHAIRMAN. The Committee will proceed. Mr. Raushenbush.

Mr. RAUSHENBUSH. Mr. Chairman, I want this afternoon to put on record some of the other financing outside of the Anglo-French, which we discussed at such length.

I do not think it will take much time, but in order to have the full story of financing complete, we want to go through these things as completely as we can.

Gentlemen, in January of the year 1915, did you not arrange for an acceptance credit to the Russian Government of $25,000,000?

Mr. WHITNEY. Yes.

Mr. RAUSHENBUSH. Was any of that credit ever rediscounted in the Federal Reserve banks?

Mr. WHITNEY. Of course, as far as we were concerned, it was not, because we were not members of the Federal Reserve System. I have no idea whether the other two participants in the credit rediscounted or not. They were all sold, I think, disposed of. Whether the privilege was taken advantage of I do not know.

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[1] See also "Exhibits Nos. 3243 through 3265", Hearings, Part XXX.

Mr. Raushenbush. We find here cable to Harjes from Morgan, dated January 4, 1915. It seems to suggest that the question of their being rediscounted depended on the adoption of a policy by the administration toward all belligerents alike. Do you have any memory about that at all?

Mr. Lamont. Did not that have to do with a little French credit of March 31 or April 1, a French credit?

Mr. Raushenbush. We thought it might have a connection with the Russian credit, too.

Mr. Whitney. Our Paris office had nothing to do with the establishment of the Russian credit. That was arranged direct with the Russian representative here, a man named Wilenkin.

Mr. Raushenbush. I will read this. [Reading:]

> If that party requires, as you indicate, 150 as total for past, present, and near-future operations, it is then clear she must export gold on large scale or enter into some joint undertaking with British Government, or give us time confer here with all chief interests looking toward acceptance proposition on a very large scale, in which we should be obliged seek open approval of Federal Reserve Board at Washington inasmuch as such steps would involve cooperation of many national banks and adoption of a policy by Administration toward all belligerents alike.

(The document referred to was marked "Exhibit No. 2325", and is included in the appendix on p. 8337.)

Mr. Whitney. I do not think, Mr. Raushenbush, that had anything to do with the Russian credit. It had to do with various suggestions through that period. It might be possibly a French commercial credit.

Mr. Raushenbush. We think so; but the point I was trying to get at was that apparently no national policy had been adopted at the time the Russian credit was floated, on rediscounting, is that right?

Mr. Whitney. You mean by the Federal Reserve Board?

Mr. Raushenbush. Yes; by the Federal Reserve Board, on these foreign credits.

Mr. Whitney. I do not think there was any question about it, as far as I know. The Russian credit, of course, was a 90-day credit with one renewal, which I have always supposed came within their rulings.

Mr. Raushenbush. I want to offer for the record the participation in that $25,000,000 Russian Government 90-day sight bills arrangement, which shows that National City, Guaranty Trust, and others were in it.

The Chairman. That is ordered for the record.

(The document referred to was marked "Exhibit No. 2326" and is included in the appendix on p. 8337.

Mr. Raushenbush. May I ask one question in that connection: After this you did not take the lead in any Russian financing at all; did you?

Mr. Whitney. No.

Mr. Raushenbush. And you did not do any purchasing for Russia?

Mr. Whitney. No.

Mr. Raushenbush. This was the only transaction in which you took the lead for Russia?

Mr. **Whitney**. And this was paid at maturity.

Mr. **Raushenbush**. I want to offer, Mr. Chairman, an excerpt from Mr. Hamlin's diary—a member of the Federal Reserve Board—which has been made available to us, in which the witness, at the time of the discussion of the French credit says [reading "Exhibit No. 2327"]:

> Question raised whether Federal Reserve banks can discount paper where goods are to be used by a foreign government.
>
> Cites case of Russian Ambassador.
>
> C. S. H.—

C. S. H. refers to Mr. Hamlin—

> points out reason Board refused to permit discount by Federal Reserve banks, in case of Russian Ambassador, was because he took credits and could use proceeds for any purpose.

(The document referred to was marked "Exhibit No. 2327" and appears in full in the text.)

Mr. **Raushenbush**. I might say in comment that we were asking for information. We do not know exactly what the transaction was, but I offer that for the record.

To go on to the French credit of April 1, 1915, we find a cable to Morgan, Harjes, dated March 15, 1915.

(The document referred to was marked "Exhibit No. 2328" and is included in the appendix on p. 8337.)

Mr. **Raushenbush** (reading):

> Duration option not very material to us. These friends seem wish money so earnestly that we have no misgivings as to our being able secure second lot at same prices as first. We talked of selling the 3- and 5-year maturities at 5.90 interest basis.

Mr. **Lamont**. What was the date of that?

Mr. **Raushenbush**. March 15, 1915.

The only point I was making there was that there seemed to be some discussion as to 3- and 5-year maturities, did there not, in that cable?

Mr. **Whitney**. It says [reading]:

> We are now, however, somewhat more dubious as to our ability form syndicate on basis mentioned, even if your friends request it.

Mr. **Raushenbush**. Yes. But the discussion was at that time on the 3- and 5-year basis. It says: "We talked of selling"; yes. Then a cable to Morgan, Harjes, dated March 17, 1915.

(The document referred to was marked "Exhibit No. 2329" and is included in the appendix on p. 8338.)

Mr. **Raushenbush** (reading):

> Figures given your 761 exactly correct. We also should have preferred straight commission transaction but thought that such form of transaction might be more difficult politically for your friends.

Could you go back and tell us why that was thought more difficult politically for the French Government on a straight commission basis?

Mr. **Lamont**. I have no recollection, on that, Mr. Raushenbush.

Mr. **Raushenbush**. All right.

Mr. **Lamont**. I was given advice at the time, but it does not strike a fire in my mind.

Mr. Raushenbush. Then there is a discussion a line or two later [reading]:

> If transaction had gone through along lines suggested we should have planned subject alteration on account market conditions to offer yearlings 5-percent-discount basis, 3 and 5 years both 5.90-percent basis, which would mean approximate commission for our group as follows, etc.

There was still discussion there on March 17, then, of the possibility of floating those on a 3- and 5-year basis, was there?

Mr. Lamont. I would have rather gathered that that has been abandoned altogether, but we explained what we had in mind more fully at the time, because we go on to say—I am not familiar with this cable—that 1 year—oh, yes.

Mr. Raushenbush. The discussion seems to go on, Mr. Lamont, on March 18.

Then this cable from Morgan, Harjes, dated March 18, 1915, no. 765.

(The document referred to was marked "Exhibit No. 2330" and is included in the appendix on p. 8338.)

Mr. Raushenbush [reading]:

> Can you not make them a tentative and somewhat more advantageous offer for one category of notes, say 1 year at a fixed price in dollars perhaps including your commission or 2- or 3-year notes with a straight commission.

I offer also for the record another cable of March 18, without comment, unless you have any. That is cable No. 766.

(The document referred to was marked "Exhibit No. 2331" and is included in the appendix on p. 8338.)

Mr. Raushenbush. I also offer for the record cable to Morgan, Harjes & Co., dated March 19, 1915, no. 504.

(The document referred to was marked "Exhibit No. 2332" and is included in the appendix on p. 8339.)

Mr. Raushenbush [reading]:

> For your private information. We are now working on question issuing for account your friends up to $50,000,000 1-year notes on 5½-percent basis, our commission, about which we are as yet undecided, to be in addition.

It ends up:

> Jack sailed on steamship *Philadelphia* yesterday for England.

Mr. Morgan, you understand that these are your own friends referring to you as Jack. We will always refer to you as Mr. Morgan.

Mr. Morgan. Oh, yes.

Mr. Raushenbush. In the terms you were using in those days, was this transaction as it was being contemplated and discussed back and forth, on a 1-, 3- or 5-year basis, a loan or a credit in the terms of the definition of loans and credits that were being used those days?

Mr. Morgan. I tell you, I have got so mixed up as to what they went by in the way of loans and credits that I do not know which it was.

Mr. Raushenbush. Do you remember, Mr. Lamont?

Mr. Lamont. No, I do not. When we finally brought it out, Mr. Raushenbush, we called it a 1-year credit. It got down that time to a length of 1 year, and naturally we threw it under the category of a credit.

Mr. RAUSHENBUSH. I also want to offer for the record a copy of a cable to Morgan, Harjes, dated March 22, 1915.

(The document referred to was marked "Exhibit No. 2333" and is included in the appendix on p. 8339.)

Mr. RAUSHENBUSH. It begins [reading]:

> Are suggesting to Leon, who is transmitting to Washington, that we form group to offer twenty-five or fifty million dollars, as we may mutually decide after testing market, 1-year 5-percent notes at 99½. Of this amount we take firm $10,000,000, charging an inclusive commission on total sales of ¾ percent, etc.

Then we come to a letter from your firm to His Excellency Jules Jusserand, the French Ambassador, on March 23, 1915.

(The document referred to was marked "Exhibit No. 2334" and appears in full in the text.)

Mr. RAUSHENBUSH. By this time it was true, was it not, Mr. Morgan, that you had left the country?

Mr. MORGAN. I had left the country.

Mr. RAUSHENBUSH. You had left on March 18, had you not?

Mr. MORGAN. Yes; that is right.

Mr. RAUSHENBUSH. This letter to the French Ambassador reads:

> Referring to the memorandum which we submit to you herewith through your representative, Mr. Maurice Leon, in reference to this matter you will of course understand that the group deems it necessary to inform the Administration of the United States so as to give it the opportunity to express any views, in the remote contingency that it should desire to do so.
>
> Very truly yours,

Do you remember, Mr. Morgan, at all about any discussion before you sailed, that there was only a remote contingency that the Administration of the United States would care to be queried on this?

Mr. MORGAN. I cannot remember anything about that, but I do not think that it makes any difference whether I remember it or not. There it stands on the record that we do say it was necessary to inform the Administration.

Mr. RAUSHENBUSH. All right. Then I submit for the record a memorandum submitted by Morgan to Mr. Leon on March 23, and initialed by him; superseding the one dated March 22, which was canceled.

(The document referred to was marked "Exhibit No. 2335" and is included in the appendix on p. 8339.)

Mr. RAUSHENBUSH. I call attention only to the first paragraph or two [reading]:

> An amount of $25,000,000 or $50,000,000 as may later be determined, of French 1-year 5-percent notes to be offered upon a 5½-percent basis.
>
> Of the total issue, whatever it may be, Messrs. J. P. Morgan & Co., National City Bank, First National Bank, and such, if any, associates as they may elect, to take firm $10,000,000.

At that time it was discussed as a 25- to 50-million transaction, was it not?

Mr. MORGAN. Yes.

Mr. RAUSHENBUSH. We find that on March 25, 1915, there is a letter from Morgan to Secretary of State Bryan. It is also signed by the National City Bank and the First National Bank.

(The document referred to was marked "Exhibit No. 2336" and appears in full in the text.)

Mr. **Raushenbush**. It is addressed to the Secretary of State [reading "Exhibit No. 2336"]:

> The French Government, finding themselves under very great expense for transferring funds from France to America owing to the position of exchange, consider it necessary to obtain temporary credit in this country to meet their obligations for American products and continue their purchases in this country.
>
> We beg to advise you, therefore, that we are arranging to place for them some $50,000,000 1-year Treasury notes, the proceeds of which are to be expended in this country.

That letter was drawn to ask for a temporary credit, was it not?

Mr. **Whitney**. Which we were going to place with the public.

Mr. **Raushenbush**. The temporary credit which you were going to place with the public. That would differ entirely from the ordinary definition of a commercial credit, would it not?

Mr. **Whitney**. Yes.

Mr. **Raushenbush**. Then a cable to Morgan, Harjes, from Morgan in New York, dated March 26, 1915.

(The document referred to was marked "Exhibit No. 2337" and appears in full in the text.

Mr. **Raushenbush** (reading):

> 519. Thanks your cable French loan.
>
> We reciprocate your kind congratulations. Are today laying matter before Washington administration so as to be certain no objection. Doubt whether matter will be in shape for us to make advances Monday, but are quite willing make such advances as soon as matter is formally concluded.

If you have no comment on that, we will pass on to a cable received from Morgan, Harjes, dated March 27, 1915, which shows nothing more than there seems to be some urgency on the part of the French Government to get their money.

(The document referred to was marked "Exhibit No. 2338", and is included in the appendix on p. 8340.)

Mr. **Raushenbush**. There is also a cable dated March 29, signed by J. P. Morgan, who is now apparently in England.

(The document referred to was marked "Exhibit No. 2339", and is included in the appendix on p. 8340.)

Mr. **Raushenbush**. I will read the second paragraph [reading]:

> Very glad about French business, but understood before leaving Washington did not wish be placed in position approving or disapproving any steps taken to arrange deferred payments for materials supplied from United States, so presumed we were free to do as seemed wise to us without regard to opinion there.

Mr. Morgan, there seems to be an indication here that before you left you had gotten from somebody in the State Department a fairly good indication that they did not want to be asked. Is not that the way you read that?

Mr. **Morgan**. I think that refers really back to the information in regard to the first French credit—was it not the City Bank?

Mr. **Lamont**. Yes.

Mr. **Morgan**. When that statement was definitely made to us, as I understand it.

Mr. **Lamont**. Did not Mr. Vanderlip testify on that the other day, as to what his vice president, Mr. McRoberts, said?

Mr. **Raushenbush**. If I understand Mr. Morgan's answer at this moment, it is, that away back there in October, it was indicated to you by the State Department they did not want to be asked about credits any more. Do I summarize it correctly?

Mr. **Morgan.** No. Whenever that French credit was put over by the City Bank, it was put over in consequence of receipt of information from Washington that they did not wish to be disturbed about it, they did not wish to be consulted about it, or something of that kind. I forget what the exact phrasing was.

Mr. **Raushenbush.** The thing that happened back on October 14 was that a distinction was drawn between loans and credits. Maybe I did not remember all of McRoberts' correspondence, but there is nothing that I remember that said the State Department did not want to be asked about credits any more. And you had this earlier letter to the French Ambassador saying that there was only a remote contingency that Washington wanted to be asked.

Mr. **Lamont.** I may be mistaken, Mr. Raushenbush, but I was distinctly under the impression that Mr. Vanderlip testified the other day that McRoberts told him, after talking with him, that they did not want to be asked pro or con in the matter. Was not a letter on file from Monsieur Jusserand, also, to that effect, addressed to the City Bank?

Mr. **Raushenbush.** I do not have that. All I see is that you did ask them on March 25.

Mr. **Lamont.** Yes.

Mr. **Whitney.** May I refresh Mr. Morgan's memory? The day before he sailed, the 17th of March—he sailed the 18th—the New York Times carried a story under the headline that Mr. Morgan was going abroad, and the last concluding paragraph in that says, if I may read it [reading]:

> The State Department has been consulted several times as to the propriety of these foreign loans, and in the early days of the war raised some objections on the ground that they might not be consistent with absolute neutrality. To some of the bankers who have been in consultation with the officials recently, the idea was plainly conveyed that the State Department would be suited quite well if such matters were not brought to its attention. The Department might find it impossible actively to sponsor a plan presented to it, while, if the transaction were carried through entirely as a matter of business, the State Department would not feel called upon to do anything about it. The result is that Wall Street feels now that it has a free hand in dealing with foreign nations, either neutral or belligerent, along the lines that have been followed or discussed heretofore.

That came out the day before Mr. Morgan sailed.

Mr. **Morgan.** That must have been what I referred to, then. I do not remember.

Mr. **Raushenbush.** It is not clear in my mind; is that inspired in an interview before he sailed as a result of the discussion with the State Department, or was that inspired by the State Department?

Mr. **Whitney.** I have no idea. It is a long story. Would you like to see it?

Mr. **Raushenbush.** Not particularly. It deals only with commercial credits, does it not?

Mr. **Whitney.** This rather would sound, although it has no date line, as if it were a New York date line, because it says, in one of the early paragraphs, "The understanding in Wall Street yesterday was that Mr. Morgan's trip would be concerned primarily", and so forth, so I rather assume that it was a Wall Street story rather than a Washington story.

Mr. **Raushenbush.** There still is a distinction between the official Government pronouncements——

Mr. **Whitney.** This is not official, but that might well account for Mr. Morgan's understanding.

Mr. **Morgan.** I had the impression. I did not say that I was advised.

Mr. **Whitney.** It said, " Understood before leaving."

Mr. **Morgan.** That cannot be very important because they did consult the State Department.

Mr. **Raushenbush.** They did it apparently to your surprise, because you point out here in this cable that you had presumed that you were free to do as seemed wise, without regard to opinion there.

Then a cable to Morgan, Harjes, dated March 29, 1915.

(The document referred to was marked " Exhibit No. 2340 " and is included in the appendix on p. 8341.)

Mr. **Raushenbush** (reading):

> Cabled you Friday explaining Washington delay matter.
>
> This has now been cleared up. Are tonight submitting formal proposal to Ambassador which presume he will accept promptly and matter will then be concluded. Upon receiving his acceptance tomorrow will credit Consul's account $10,000,000, etc.

I now offer for the record a letter dated March 30, 1915, which is a National City Bank letter. I will offer instead of that a letter dated March 31 from Maurice Leon to Messrs. J. P. Morgan & Co., National City Bank, and First National Bank of New York.

(The document referred to was marked " Exhibit No. 2341 ", and is included in the appendix on p. 8341.)

Mr. **Raushenbush.** This, Mr. Morgan, was the day before the credit was opened, was it not? That was opened on April 1?

Mr. **Morgan.** So I understand. I do not know to what letter you are referring. I do not have a copy of it here.

Mr. **Raushenbush.** March 31 was the day before the credit was opened?

Mr. **Morgan.** The credit was opened on the 1st of April, was it not?

Mr. **Lamont.** What happened on March 31?

Mr. **Raushenbush.** This letter was sent to Messrs. Morgan & Co., National City Bank, and First National Bank of New York [reading]:

> Gentlemen: In accordance with your message received through Messrs. J. P. Morgan & Co., your letter under date of the 29th addressed to His Excellency, Mr. Jusserand, the Ambassador of France to the United States and which I handed to the Ambassador yesterday morning was corrected as follows:

Then he gives a corrected letter, which is then signed by J. P. Morgan & Co., National City Bank and First National Bank.

In those corrections—and I show you a photostat—the French representative here has in every case crossed off the words "gold notes" and inserted the words "Treasury bonds" or simply "bonds" in about 10 different cases throughout the letter.

Do you have this letter in front of you?

Mr. **Whitney.** I think that has to do with the question of legislation. They were not properly described as "notes." To comply with the French legislation they had to be called "Treasury bonds."

Mr. RAUSHENBUSH. There is an attachment to that letter, which I offer for the record. The attachment was written on March 30, in other words, the day before this letter to the banks. Mr. Leon here makes the correction on March 30 [reading]:

> The word gold notes, which I gather from your telegram of today's date, is to be considered as duly erased from your said letter; the bonds will, therefore, be called, like those issued in November last, French Treasury bonds—"Bons du Trésor Public Francais."

So at that time, on the 30th of March, before the State Department had informed the press about this matter, the credit was being secured by French bonds, was it not?

Mr. WHITNEY. I am not speaking by the book, but in my recollection, in looking this matter up, it was merely a question of French practices, and required new legislation to term them "gold notes" rather than French Treasury bonds. It was just a matter of phraseology. It had no significance whatever except from a technical point of view.

But if you want me to, I can very easily check it. It is somewhere in the cable.

Mr. RAUSHENBUSH. Let us go on a minute and see whether we need to.

On March 31, 1915, then, the State Department gave another release to the press.

(The document referred to was marked "Exhibit No. 2342" and appears in full in the text.)

Mr. RAUSHENBUSH. It reads as follows:

> The State Department has from time to time received information directly or indirectly to the effect that belligerent nations had arranged with banks in the United States for credits in various sums. While loans to belligerents have been disapproved, this Government has not felt that it was justified in interposing objection to the credit arrangements which have been brought to its attention. It has never approved these nor disapproved—it has simply taken no action in the premises and expressed no opinion.

Then on April 1, 1915, there was a letter, which I offer, to J. P. Morgan & Co., summarizing the transactions and pointing out that the French law of March 27, 1915, "provides for an increase of the authorized amount of French Public Treasury bonds to four and a half billion francs."

(The document referred to was marked "Exhibit No. 2343", and is included in the appendix on p. 8342.)

Mr. RAUSHENBUSH. I also offer for the record syndicate participation of the Treasury bonds, showing that they were taken up to the extent of $26,290,000, in the various names of the people that took them. That was somewhat less than the $50,000,000 that had been proposed, was it not?

You asked the State Department for $50,000,000 and this was what was sold, $26,290,000.

(The document referred to was marked "Exhibit No. 2344", and is included in the appendix on p. 8343.)

Mr. RAUSHENBUSH. I also offer for the record a letter dated June 16, 1915, from Morgan to F. L. Hine, President, First National Bank, New York City, advising you had disposed of total of $26,200,000 and for their share of the compensation they received $26,000 plus.

Mr. WHITNEY. What date was that, Mr. Raushenbush? We do not seem to have it. It apparently is not very important.

Mr. Raushenbush. I will offer that for the record.

(The document referred to was marked "Exhibit No. 2345", and is included in the appendix on p. 8344.)

Mr. Raushenbush. I also offer for the record some figures taken from your books showing the cost of these bonds, and there is one figure there showing the "cost of $2,622,000 purchased and taken from purchasers."

What is the explanation of that, Mr. Whitney? We just did not understand what that meant in your parlance.

The Chairman. It is the second item up on the first page

Mr. Whitney. That was an additional amount taken from purchasers. Mr. Keyes tells me that is a matter of bookkeeping. The first step in taking them up for the obligor, the French Government, is for the account of the purchasers, and then transferred to the syndicate.

Mr. Raushenbush. That would be a matter of supporting the market, to some extent, would it not?

Mr. Whitney. No, sir. And the bond syndicate account had $23,706,000 of them in there, which was the first step, in which we and the two banks, the City and the First National, bought from the French Government; and in addition there was $2,622,000 which the syndicate bought from us.

So that meant the total number of bonds in there was $26,328,000.

Mr. Raushenbush. That is merely an intermediate step between the syndicate and buying them for the French Government, and the purchasers in this case are——

Mr. Whitney. J. P. Morgan & Co., First National Bank, and National City Bank.

Mr. Raushenbush. You did give some support to the market, did you not, as agents for the French?

Mr. Whitney. Yes; a good deal later, and Brown Bros. were in that. They were in with us.

Mr. Raushenbush. You and Brown Bros. supported the loan somewhat, did you not?

Mr. Whitney. Considerable later on.

Mr. Raushenbush. When you say "considerable later on" do you mean 2 months later or 3 months later?

Mr. Whitney. I cannot give the months here. Somewhere there is a statement that we have. If you will give me a chance to check it up, I will get the date.

(The document referred to was marked "Exhibit No. 2346" and is included in the appendix on p. 8345.)

Mr. Raushenbush. Would you look at a cable dated May 28, 1915, to Harjes?

(The document referred to was marked "Exhibit No. 2347" and is included in the appendix on p. 8346.)

Mr. Raushenbush. In that you say [reading]:

> We venture to suggest for your consideration the question of our buying in market for account of French Government notes up to £1,000,000, drawing on London therefor.

Mr. Whitney. That would be the date that we suggested it, and I think later on—I am sure we bought some more of it. I cannot tell you the exact date.

Mr. **Raushenbush.** I also offer for the record a cable dated June 1 from Harjes, ending up [reading]:

> In the meantime French Government authorize you to support market by buying for their account up to £500,000.

(The document referred to was marked "Exhibit 2347–A" and is included in the appendix on p. 8347.)

Mr. **Raushenbush.** This distinction still worries us, you see. This book that you wrote, Mr. Lamont, entitled "Henry P. Davison, the Record of a Useful Life", on page 192 you wrote as follows [reading "Exhibit No. 2348"]:

> In April 1915 J. P. Morgan & Co. consented to bring out a French Republic 1-year loan, which was successfully issued in the amount of $30,000,000.

(The document referred to was marked "Exhibit No. 2348" and appears in full in the text.)

Mr. **Raushenbush.** There is a small matter of $4,000,000 there, but you do describe it as a loan.

Mr. **Lamont.** I certainly allude to it as a loan; yes.

Mr. **Raushenbush.** According to any definition we have had to which you have subscribed, it was a loan, was it not? It was backed by French Government treasury bonds, and it was distributed out in this syndicate, the 1-year thing?

It was pretty far removed——

Mr. **Whitney.** We said in our letter to the State Department——

Mr. **Raushenbush.** In your letter to the State Department you described it as a temporary credit, if I remember.

Mr. **Lamont.** For 1 year.

Mr. **Whitney.** Excuse me.

Mr. **Raushenbush** (reading)[1]:

> The French Government, finding themselves under very great expense for transferring funds from France to America, owing to the position of exchange, consider it necessary to obtain temporary credit in this country to meet their obligations for American products and continue their purchases in this country.
>
> We beg to advise you, therefore, that we are arranging to place for them some $50,000,000 1-year treasury notes, the proceeds of which are to be expended in this country.

There is nothing about distribution there.

Mr. **Lamont.** All these cables are filled with the word "offer", Mr. Raushenbush.

Mr. **Raushenbush.** All right. You told the State Department?

Mr. **Lamont.** Certainly. There we say "notes." We do not say either "loan" or "credit."

Mr. **Raushenbush.** Still on the question of whether according to your own definitions this was not really a loan.

Mr. **Lamont.** Yes; I think so.

Mr. **Raushenbush.** It was a loan at the time that the State Department was handing out the press releases to the public, as the one on March 31 again, using the language [reading][2]

> While loans to belligerents had been disapproved, this Government—

And so forth.

That was incidental there, was it not?

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[1] Previously entered as "Exhibit No. 2336", see supra, p. 8195.

[2] "Exhibit No. 2342", see supra p. 8198.)

Mr. **Lamont.** I think that nobody knows where to draw a distinction and there is no real distinction between a loan of that kind and the street parlance of a credit.

You open a credit for a man and he does not necessarily draw against that, and until he draws against it, it does not become a loan. The moment he does draw against it, then it becomes a loan.

Mr. **Raushenbush.** We have gone into this once before, and I just wanted to get the thing clear in my own mind. There seemed to be two alternatives. As I get your and Mr. Morgan's remarks, you had a pretty definite picture in your own minds, a perfectly clear picture of what was happening.

Mr. Morgan the other day, on page 11856 of the record,[1] answered a question by saying [reading]

> Was not the transition period made in order to ease a decision of the Government contrary to Mr. Bryan's original language?

Mr. **Morgan.** I made that suggestion.

Mr. **Raushenbush.** Yes. And that fitted in, it seemed to me, with Mr. Morgan's comment again. The chairman asked [reading][2]:

> Is there a difference between loans and credits?

And Mr. Morgan said [continuing reading]:

> Actually, I suppose not, but technically they do make a distinction.

Mr. Lamont added, a few minutes later [reading] [3]:

> The Administration began rather early in those early months of the war apparently to draw a distinction between commercial credits or private credits, they might be called, and public loans.
>
> They were the people that first began to draw that distinction.

That all fits together, that you give us the picture that the Administration felt that it had apparently made a mistake and was slowly pulling out the props from under its loan policy, if you will, by one distinction after another. I was trying to get at one this afternoon, that maybe there is still a further step there, that maybe they conveyed the information they did not even want to be asked about it any more. We did not come to a determination of that.

So I have expressed one alternative fairly clearly, that you thought you saw what the Administration had in mind and acted accordingly.

Before you answer that, perhaps I may put the other alternative, which is another perfectly plausible one: If, then, that alternative that I have described were not so, then it would follow that the State Department has made a distinction between loans and credits in October, that it has said to the public in January when it wrote to Senator Stone of the Senate Foreign Relations Committee that no steps had been taken to change the loan policy, that again in March here, as I have read, it was again saying there was no change in the loan policy.

The State Department in this alternative, in its very statement, sticks to the proposition that it had not made any change in the loan policy.

If the State Department's proposition stands up there, then it would follow that wherever these credits would be called and described as loans, the bankers made loans while the State Department was informing the public and informing the Senate Committee on Foreign Relations that loans were not permitted, and that therefore the bankers had not generally been quite informing the State Department in full.

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[1] See Hearings, Part XXVI, p. 7832.
[2] Hearings, Part XXV, p. 7501.
[3] Ibid, p. 7502.

You reject that alternative, I understand. That is the alternative you reject?

Mr. LAMONT. You are going back 20 years now, you know, Mr. Raushenbush, and asking us to remember about certain details which are exceedingly cloudy. What do you want us to say? What would you like to have me say now, anyway?

Mr. RAUSHENBUSH. I do not think that is fair, Mr. Lamont. I am not trying to put anything into your mouth at all.

Mr. LAMONT. I do not mean that, but I honestly do not get your point. Perhaps I can answer it in this way; perhaps it will not be a satisfactory answer.

My answer would be that up to Mr. Bryan's solitary declaration in August 1914 that he did not believe loans were consistent with the true spirit of neutrality, the policy of the Government for generations had been to make loans and to make sales because they considered the principle sound that if you are permitted to sell a man goods, you are permitted to get him to pay cash or on time, as you like. That has been their policy.

Bryan, perhaps with some inexperience, declared that that ought to be changed. We have gone over this whole ground before. But he does change it.

And in the middle of October, at the end of 1914, it begins to be changed back. It begins to be changed back through the application of the National City Bank to put out a $10,000,000 French credit for 1 year.

Time goes on and apparently from the public prints that appear from time to time there is a gradual relinquishing on the part of our Government on the whole question of Allied loans. We come along to the French operation. On March 15 we say again in our cables we are talking about an offering, which means an offering to the public.

Then in our letter to the State Department which you have just quoted we talk about offering these notes, and so forth, which would indicate in our minds, and we get it from the public, too, that the Administration had moved along to that point, so that they had no objection to what might be a 1-year loan publicly offered.

I do not know whether that answers you at all.

Mr. RAUSHENBUSH. That answers it. You accept what I was trying to propose as the first alternative, too. It seemed to me, in trying to figure a way out of this mess, there were only two to choose. If you choose, yourself, and the thing was exactly as you described, that is one fair picture of the mechanism that was operating at the time. But at the same time, when you choose that alternative, you do exactly what Mr. Morgan was doing the other day when he pointed his finger across the way and said:[1]

> Was not the transition period made in order to ease a decision of the Government contrary to Mr. Bryan's original language?

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[1] Hearings, Part XXVI, p. 7832.

He points, in other words, to the other alternatives that the State Department was breaking away constantly on almost every new loan that came up from his own definition, and was at the same time still adhering in all expressions to the public and the Senate Committee on Foreign Relations to the old one; and if there is any fault to be found it is with the State Department for deceiving the public to the extent that it may have deceived it.

Mr. LAMONT. I would not have thought that they were deceived at all, Mr. Raushenbush, but that is neither here nor there. All I know is that from the very start we were determined to abide very strictly by whatever regulations the State Department laid down for us. We showed that in our application in August 1914, which was turned down. That was always our policy.

Mr. RAUSHENBUSH. But that is the point: the regulations laid down to you were not the same ones it made public in its various pronunciamentos, which are all on the same formula [reading]:[1]

> While loans to belligerents have been forbidden—

And so forth.

If you accept your hypothesis, the quarrel seems to be with the fact that the State Department, while letting down its policy, kept saying to such important people as the chairman of the Committee on Foreign Relations and the public constantly, "We have not let down; we are still right where we were when Bryan's first statement came out."

Mr. LAMONT. Let us let the State Department fight that battle out itself.

Mr. RAUSHENBUSH. I want to point out to you that when you took your alternative you pointed the finger, as Mr. Morgan did, directly across the street there.

Mr. WHITNEY. I do not suppose it is worth delaying the committee, but I should like to sit down with you sometime and clear up the use of these words "credit" and "loan."

Mr. RAUSHENBUSH. We have already asked Mr. Morgan and Mr. Lamont and you about it, and we have a pretty good explanation in the record about it.

Mr. WHITNEY. The word "bon" in French means "note." They have no such word as "note." When they are speaking of bonds, they use "obligation." "Bon" means "note"; that is, the treasury note. You speak of it as "bon du Trésor." They do not have French notes.

Mr. RAUSHENBUSH. How are they listed on the French exchange?

Mr. MORGAN. The long-term bond, "obligation." "We promise to pay"——

Mr. WHITNEY. The word "note" was "bon du Trésor." They have no word "note." That is the change they wanted to make in the letter to comply with the French law.

Mr. RAUSHENBUSH. I will take my lesson in French with good grace. That is all.

The CHAIRMAN. Mr. Brown.

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[1] "Exhibit No. 2342." See supra, p. 8198.

Mr. **Brown**. The next subject is the de Rothschild Frères loan of the late spring of 1915, and I offer for the record as a brief and excellent summary your memorandum prepared for us.

(The document referred to was marked "Exhibit No. 2349" and is included in the appendix on p. 8347.)

Mr. **Brown**. I will read the first paragraph:

> May 28, 1915. The First National Bank, National City Bank, and J. P. Morgan & Co. agreed to lend de Rothschild Freres, Paris, up to $30,000,000 on their promissory notes maturing July 1, 1916, with interest at 5 percent; compensation was a commission of 1¼ percent. The notes were secured by deposit of Pennsylvania Railroad Co. 3¾-percent French franc loan certificates, due 1921, and Chicago, Milwaukee & St. Paul Railroad Co. French 4-percent debenture, due 1925.

That is merely a description of the issue.

Mr. **Whitney**. Are you putting that memorandum in?

Mr. **Brown**. In the record, Mr. Whitney; the entire memorandum.

To complete the record at this point, I am offering, subject to some later comment, cable dated April 22, 1915, no. 2985; cable of April 23, 1915, no. 3036; and cable of April 30, 1915, no. 4122.

They belong at this point because of their date. I would like to recur to them later, if you do not mind.

(The documents referred to were marked "Exhibits Nos. 2350, 2351, and 2352", respectively, and are included in the record on pp. 8348 and 8349.)

Mr. **Brown**. I merely put them in here because of their chronological position. They outline the status of the negotiations, and so on. I would like to recur to them later when some of the points would make more sense.

I come now to cable of May 1, 1915, no. 619, from Mr. Davison to Harjes, Paris.

(The document referred to was marked "Exhibit No. 2353", and is included in the appendix on p. 8349.)

Mr. **Brown** [reading]:

> After careful consideration with Trio, suggest following: That we can probably take firm, say thirty Rothschild and thirty Bank of France, 1 year at 6 percent, to be secured by mixture in each of St. Pauls and Pennsylvanias.

I stop at that point for a moment. I take that to mean you agreed to lend thirty million to the Rothschilds and thirty million to the Bank of France?

Mr. **Whitney**. That is what was read.

Mr. **Brown**. What was the reason for offering thirty to one and thirty to the other?

Mr. **Whitney**. Because I think the cable that you referred to a minute ago, 4122, said [reading from "Exhibit No. 2352"]:

> French Government would not consider operation worth while unless it could be done for say $50,000,000 or $60,000,000.

Mr. **Brown**. What I mean is, refer to the second page on my copy of this same cable that I was reading:

> Suggestion that Bank of France make half the issue made as on account of legal limit, institutions could take twice as much in aggregate of two makers as of one.

Mr. **Whitney**. Because, you see, the so-called "Trio" planned just to keep it themselves. I suppose if they got up to $60,000,000 with the Rothschilds on the proportions outlined, that would have been beyond the legal limit of one of the other two banks.

Mr. **Brown**. There was no thought of distributing this loan beyond the Trio?

Mr. **Whitney**. We apparently did distribute it.

Mr. **Brown**. Yes, I believe so; but that raises the question whether you were concerned at that time about the ability of the banking circles in general to absorb Allied obligations. You said, yourself, that if you split the obligors, you could sell twice as much.

Mr. **Whitney**. Yes; that was a suggestion. Of course, we did not do it.

Mr. **Brown**. You did not, in this case.

Mr. **Whitney**. I think the record has been perfectly clear.

Mr. **Brown**. You did not, at that time, have any anticipation of such extended loans that it would be practically necessary to keep the bank examiners happy?

Mr. **Whitney**. It is not to keep them happy, it is to do what the law provided.

Mr. **Brown**. The next correspondence, so far as we are aware, on this loan, is dated May 17, 1915, no. 826. There is a gap of 16 days.

(The document referred to was marked "Exhibit No. 2354" and is included in the appendix on p. 8350.)

Mr. **Brown**. I read the opening lines:

> In view of recent events, Minister of Finance suggests that public opinion in U. S. A. likely more favorable to belligerents' obligations than few weeks ago and that consequently some financial arrangement with France might now have better chance of success.

Do you recall to what he is possibly referring, "that opinion in the U. S. A. is likely more favorable to belligerent obligations"?

Mr. **Whitney**. Mr. Harjes is referring to the opinion of the Minister of Finance.

Mr. **Brown**. Do you suppose it was the *Lusitania*, that was sunk on May 7?

Mr. **Whitney**. I would not know.

Mr. **Raushenbush**. Were there any other recent military operations of any importance equal to that?

Mr. **Brown**. Not that I recall [continues reading]:

> Although recognizing lack of urgency, Minister of Finance naturally desirous of taking advantage of any good opportunity—

Which I judge he concludes is now offered in the *Lusitania*.

Mr. **Whitney**. You are assuming. You are doing the Minister's thinking.

Mr. **Brown**. No; assuming, Mr. Whitney.

The **Chairman**. Mr. Whitney, you do not think that there is grave doubt but what that was his reference?

Mr. **Whitney**. I have no idea, Senator.

Mr. **Brown** (reading):

> Even if something very big could not be done, he feels as we do that the mere moral effect of additional financial assistance on your part would be of great help.

I just want to note in passing that connection again between financial assistance and moral effect which has run through many of these cables.

I call attention to the lower part of this cable, in which it says [reading]:

> Now that you control future purchases, could you not arrange for these that sellers accept payment by means of renewable 6-months drawings on groups of U. S. A. banks.

Does not that, to your mind, indicate any connection between the financing and the purchasing agency on which there have been several questions?

Mr. WHITNEY. Perfectly, clearly; it does, because that was just after the commercial agency agreement with the French Republic had been made.

This constantly recurring suggestion in connection with those purchases, that the contracting firm sell it on time, was quite obviously just a very customary way of selling goods, as you know, on long time, to the purchaser. This is a suggestion which never happened.

Mr. BROWN. Never happened, but the point is very clear in the mind of Mr. Harjes, who has just been talking to the Minister of Finance, that there is a connection between the purchasing and finances; that if you are to do the purchasing, it is up to you to go out and get the financing, too.

Mr. WHITNEY. Oh, not at all; not at all. It could not be clearer than what it says here, that we suggest to the people that the sellers, under the contracts, accept payment by means of renewable 6-month drawings on groups of U. S. A. banks, and it is perfectly clear.

There is no argument about what he says.

Mr. BROWN. But it indicates to my mind that in the minds of the French there is a connection between financing these purchases that you were making and purchasing. That is a matter of interpretation.

Mr. WHITNEY. All you have to do there is refer to the contract, which says it has nothing to do with financing.

Mr. BROWN. On May 18, in cable 10016, in answering a previous cable, you cabled to Mr. Harjes in Paris [reading]:

> In view President's note to Germany, situation here not at all clear. Therefore this inopportune time to reconsider general financing plan.

(The document referred to was marked "Exhibit No. 2355", and is included in the appendix on p. 8350.)

Mr. BROWN. I judge by that sentence that the reference is distinct to this drawing plan, that for the time being you want to drop the drawing plan, at any rate. "However, we undoubtedly could arrange for loan on bonds along lines our 619", which I take it is the de Rothschild Freres loan.

Mr. WHITNEY. That is, of course, the note of the 13th, President Wilson's first United States note to Germany.

Mr. BROWN. Why did that make it, to your mind, an inopportune time to reconsider general financing?

Mr. WHITNEY. I cannot answer that. I do not know. Do you know, Mr. Lamont? I was not there.

Mr. LAMONT. No; I do not remember, particularly.

Mr. BROWN. Did you have the feeling that an announcement at that time of a fairly sizeable loan to one of the belligerents would in any way embarrass the Administration's negotiations with Germany?

Mr. LAMONT. I do not remember 20 years ago, Mr. Brown; I am sorry.

Mr. **Brown**. I offer for the record at this point, to keep it in chronological order, a cable of May 28, 1915, no. 10046, which discusses the details and the nature of the collateral and the amount offered on it.

(The document referred to was marked " Exhibit No. 2356 " and is included in the appendix on p. 8350.)

Mr. **Brown**. Cable of June 6, no. 15086, which encloses a note, the form of note of de Rothschilds Frères.

(The document referred to was marked " Exhibit No. 2357 " and is included in the appendix on p. 8351.)

Mr. **Brown**. At this point, just to keep the record straight, I read from page 3 of the edition that I have of that cable, at the bottom of the page [reading]:

> J. P. Morgan & Co. will credit De Rothschild Freres, Paris, account with them upon the date which will be fixed as that upon which the operation commences, of the amount of the advance, and that same day J. P. Morgan & Co. will transfer at once to the credit of the French Treasury, in an account on their books, this same amount, of which the French Treasury alone will have the right to dispose.

I do not think there is any question but that this is a loan to France, is there?

Mr. **Whitney**. It is a loan to de Rothschilds for account of France.

Mr. **Brown**. And the money was credited, of course, by you, yourselves, the same day on your own books?

Mr. **Whitney**. Under these instructions.

Mr. **Brown**. I offer the French form of that letter, just to be complete in the record. It is a letter dated the 18th of June from de Rothschilds to J. P. Morgan & Co. Excuse me; that is not the French form of that, that is the French form of the next exhibit, which is a letter of the 18th of June 1915, from de Rothschilds to Morgan.

(The document referred to was marked "Exhibit No. 2358" and is included in the appendix on p. 8352.)

Mr. **Brown**. What was the authority to sell the collateral under this loan other than the event of default?

Mr. **Whitney**. Let us see if I can find that. I would not want to speak from memory.

Mr. **Brown**. I have no recollection of the authority, if you could look it up and introduce it in the record.

Mr. **Whitney**. Of course, we know that ultimately the collateral was sold by arrangement.

Mr. **Brown**. It ultimately was sold; yes.

Mr. **Whitney**. May I just make clear, Mr. Brown—of course, we know, do we not, that there were a lot of cables before the collateral was sold.

Mr. **Brown**. Yes.

Mr. **Whitney**. What you would like to know is if we could find out the exact arrangements of the sale of the collateral?

Mr. **Brown**. Just the authority for the sale of the collateral.

Mr. **Whitney**. Do you have any reason to believe there was any provision for selling the collateral?

Mr. **Brown**. The letter from de Rothschild does not provide for anything except default, as I understand it.

Mr. **Whitney**. Have you any reason to believe there was any provision? Of course, ultimately the collateral was sold, but that was a subject of a great deal of conversation, or cables to and fro, which ultimately resulted in authority to make these two sales.

I will look it up, gladly.

Mr. BROWN. Thank you.

I offer for the record cable of June 21, 1915, no. 10143; also no. 15142, of June 22; no. 10155, of June 22; and 10126, of June 17.

I believe that disposes of the actual mechanics in negotiation of the loan.

(The documents referred to were marked "Exhibits Nos. 2359, 2360, 2361, and 2362" and are included in the appendix on pp. 8352 and 8353.)

Mr. LAMONT. Do you want to put in 15140?

Mr. BROWN. I have no objection to any one that you think is relevant.

Mr. LAMONT. I think it is just another little link.

(The document referred to was marked "Exhibit No. 2363", and is included in the appendix on p. 8354.)

Mr. BROWN. Having got the mechanics in the record and out of the way, I would like to recur to the first exhibit, which is no. 2349. That is a memorandum that you submitted to us.

I point out the loan finally amounted to a total of $44,436,395, in which the commission was applied as follows [reading from "Exhibit No. 2349"]:

Expenses for cables, etc	$1,000.00
Morgan, Harjes & Co	105,476.95
First National Bank	105,006,58
National City Co	105,006.58
J. P. Morgan & Co	210,894.63
Total	527,384.74

on the loan, profit alone.

That is not considering for the moment the sale of collateral.

Mr. WHITNEY. They are right. I correct myself. You remember I said they were participants. There were no participants except ourselves and the two banks.

Mr. BROWN. I wish to introduce at this point an account showing that the total amount of profit and interest paid the participants amounted to $1,416,563.73.

(The document referred to was marked "Exhibit No. 2363A" and is included in the appendix facing p. 8354.)

Mr. WHITNEY. And interest?

Mr. BROWN. And interest; yes.

Mr. WHITNEY. You mean, we bought a note, and we got interest on it, and that is profits.

Mr. BROWN. No; I said, "Profits and interest."

How was this loan paid off? This was paid by the sale of this collateral, was it not?

Mr. WHITNEY. Yes; paid off by the sale of the collateral of the Pennsylvania bonds to Kuhn, Loeb & Co.

Mr. BROWN. The bonds were sold, were they not, by having the two railroad companies issue dollar obligations instead of francs?

Mr. WHITNEY. The arrangement made by their own bankers on the issuance of dollar securities; yes.

Mr. BROWN. I call your attention to a cable of April 22, 1915, in which Mr. Morgan says, in regard to this loan; the suggestion having been made that instead of a loan perhaps the Pennsylvania

Railroad would be willing to buy its bonds back and the St. Paul would be willing to buy its bonds back [reading from "Exhibit No. 2350"]:

> Chief difficulty I see is that Pennsylvania Railroad business being in hands Kuhn, Loeb & Co. and they having considerable to say in regard to Chicago, Milwaukee & St. Paul, they might endeavor to prevent such a transaction taking place, but should be glad your opinion whether something could not be struck out of this idea.

Mr. WHITNEY. Well, they did it.

Mr. BROWN. Why do you think that Kuhn, Loeb would have opposed it?

Mr. WHITNEY. I have not the remotest idea why Mr. Morgan thought they might oppose it.

Mr. BROWN. The next cable is "Exhibit No. 2351." This is April 23, 1915, cable from Mr. Lamont to Mr. Morgan in London [reading]:

> Hardly possible that railway companies concerned would consider repurchase for the reason that they now feel securities are nicely tucked away, but there is possibility might consider purchase small amount for sinking funds, especially Pennsylvania Railroad early maturities.

Apparently you seem to be quite aware that the railroad companies would not be enthusiastic about this proposition that was afterward put to them to refund these in dollar form.

Mr. WHITNEY. We thought they would not be.

Mr. BROWN. As the record shows, you eventually went ahead with the loan on that basis.

Mr. WHITNEY. There were many other transactions, of course, Mr. Brown, as you know, of the same character, the New Haven and Southern Railway bonds, and so forth.

Mr. BROWN. We will come to that in a minute.

For the record I offer the agreement between the Pennsylvania Railroad Co., J. P. Morgan & Co., and Kuhn, Loeb & Co., which is a letter of August 20 from Mr. Anderson, apparently, to Messrs. Kuhn, Loeb & Co.

(The document referred to was marked "Exhibit No. 2364", and is included in the appendix on p. 8355.)

Mr. BROWN. I also offer a letter from Kuhn, Loeb & Co., dated August 20, 1915, to Messrs. J. P. Morgan & Co., and another letter of September 23, 1915, from Kuhn, Loeb & Co., to Messrs. J. P. Morgan & Co.

(The documents referred to were marked "Exhibits Nos. 2365 and 2366" respectively, and are included in the appendix on p. 8356.)

Mr. BROWN. On the first of those to which I referred, the letter of August 20, 1915, the first-numbered paragraph begins [reading from "Exhibit No. 2364"]:

> Subject to our obtaining, within 20 days, assurances satisfactory to the Pennsylvania Co. on the points indicated below.

In other words, it was very clearly depending, as you were aware, on the consent and approval of the Pennsylvania Railroad.

I mean, you stated before that their bankers, Kuhn, Loeb & Co., sold it to the railroad. That was, of course, true.

Mr. WHITNEY. If I did, I was mistaken. They sold it to the public.

Mr. **Brown**. They sold the dollar bonds to the public, but they sold the franc bonds to the railroad.

Mr. **Lamont**. For the railroad.

Mr. **Brown**. No; to the railroad. They sold the franc bonds back to the railroad for dollar bonds.

Mr. **Morgan**. Then the railroad issued dollar bonds to the public.

Mr. **Brown**. Then Kuhn, Loeb issued dollar bonds to the public.

Mr. **Morgan**. Yes.

Mr. **Brown**. The point I was making was, you were aware it was not simply between Kuhn, Loeb and the Pennsylvania Co., you were aware that the matter required a certain amount of "assurances satisfactory to the Pennsylvania Co. on the points indicated below." You were not altogether out of touch with the picture, were you?

Mr. **Whitney**. Oh, no; of course not. We negotiated with them.

Mr. **Brown**. Now I offer for the record a letter from Edward B. Taylor, second vice president, Pennsylvania Lines west of Pittsburgh, addressed to Messrs. Kuhn, Loeb & Co., dated August 25, 1915, from which I read only one part [reading from "Exhibit No. 2367"]:

> The new certificates—

which, I take it, are the dollar certificates—

> are to be limited to the aggregate amount of $48,262,500 at any time outstanding, are to mature June 15, 1921, are to bear interest at the rate of 4½ percent per annum * * *.

The Pennsylvania bonds had originally been 3¾, had they not?

Mr. **Whitney**. They were; yes.

Mr. **Brown**. And this figure of $48,262,500 indicated that the bonds were refunded at the par of the exchange, does it not?

Mr. **Whitney**. You mean the figure you have just read?

Mr. **Brown**. Yes.

Mr. **Whitney**. I have not got that contract.

(The document referred to was marked " Exhibit No. 2367 " and is included in the appendix on p. 8356.)

Mr. **Brown**. Further down in section IV of this letter it states [reading]:

> This company—

that is the Pennsylvania—

> will issue and deliver to you or upon your order new certificates, dollar for dollar, at the rate of $96.525 for fcs. 500 * * *—

which is the par of exchange. At that time exchange was not at par, was it, Mr. Whitney?

Mr. **Whitney**. No; it was not.

Mr. **Brown**. It was not.

Mr. **Whitney**. You are talking now about a contract with which we had nothing to do. Are you not talking about a contract with Kuhn, Loeb?

Mr. **Brown**. Yes, sir. I point out that you were not strangers in the negotiation, and I thought that possibly you might be familiar with it.

Mr. **Whitney**. I was undoubtedly familiar with it, in the summer of 1915, 20 years ago last summer, but I do not remember the terms of the contract passing between two other people.

Mr. **Brown**. The only point, I take it, which lies here is at the time the franc was considerably below par, and yet the railroad company was willing, not only to continue its fixed charges on its old book value, at par of exchange, but even to increase the fixed charges by increasing the interest rate. Do you have any reason to offer why the Pennsylvania Railroad made any such contract?

Mr. **Whitney**. I could not say I recall it. I remember what it was on the New Haven, because we handled that business ourselves, but there must have been a satisfactory compensation to the Pennsylvania or certainly they would not have done it.

Mr. **Brown**. The net result was at the time when it would have been possible to have taken advantage of the depressed exchange to reduce their fixed capital and thereby their fixed charges, they, in a transaction in which you and Kuhn, Loeb were the principal ones, as well as the railroad, continued that same fixed capital indebtedness and increased its interest charge. Is not that correct?

Mr. **Whitney**. You put us and Kuhn, Loeb together. Kuhn, Loeb & Co. were the bankers for the Pennsylvania. The Pennsylvania are extraordinarily well able to take care of themselves. I have no idea. Why don't you ask the Pennsylvania?

Mr. **Brown**. The gentlemen in Kuhn, Loeb & Co. who were involved in this are all now dead, and I was wondering, since you had a rather important part in this transaction, if you had any memory of it.

Mr. **Whitney**. We had nothing to do with it except to suggest if they wanted to work out the transaction, whereby they could call in the French franc bonds and issue some others for them, we thought they could be made available, and we had nothing to do with the transaction with the Pennsylvania, or whether it was wise for them.

Mr. **Brown**. I offer for the record a letter to Edward B. Taylor, vice president, Pennsylvania Co., dated August 26, 1915.

Mr. **Whitney**. From whom?

Mr. **Brown**. It appears to be from Kuhn, Loeb.

Mr. **Whitney**. It is not from us, is it?

Mr. **Brown**. No, sir.

(The document referred to was marked "Exhibit No. 2368" and is included in the appendix on p. 8358.)

Mr. **Brown**. I offer a further letter from Mr. Tatnall, vice president of the Pennsylvania Railroad, to Kuhn, Loeb & Co., dated September 23, 1915.

(The document referred to was marked "Exhibit No. 2369" and is included in the appendix on p. 8359.)

Mr. **Brown**. You stated you had no connection with these negotiations?

Mr. **Whitney**. I did not say quite that.

Mr. **Brown**. Excuse me, not at the focal point, let us say. But in one of the earlier exhibits, Mr. Davison, as I read here, expressed the opinion that the roads would be very reluctant to purchase, and I am still trying to find out if you have any recollection of how, in the face of that reluctance, they were not only willing to purchase, but to repurchase, if they could not take advantage of the reduced exchange, that they repurchased those at par. Before the transaction was made, Mr. Davison thought they might be reluctant to do so.

Mr. WHITNEY. I should assume, without any knowledge, that Mr. Davison's opinion that they would be reluctant was that the public did not have enough cash on hand, but at a later date, and during the course of several months, there was a period—are you sure that that was a disadvantageous trade?

Mr. BROWN. I have not said that it was a disadvantageous trade. I said it was refunded at the par of exchange.

Mr. WHITNEY. Was not the principal amount reduced?

Mr. BROWN. No.

Mr. WHITNEY. I do not know. I had nothing to do whatever with the discussions with the Pennsylvania Railroad.

Mr. BROWN. There is just one point there, Mr. Whitney. You said the railroad did not have any money. Railroads almost never engage in their own refunding operations, do they?

Mr. WHITNEY. That is what I mean. They have to refund it.

Mr. BROWN. They get bankers to refund it for them?

Mr. WHITNEY. Yes, sir; certainly, bankers.

Mr. BROWN. The fact that the Pennsylvania had no money to refund it is entirely irrelevant. They would have gone to bankers to get it, anyway?

Mr. WHITNEY. That is what Mr. Davison was hesitant about, was it not?

Mr. BROWN. Presumably.

I offer for the record a letter from Kuhn, Loeb & Co. to Mr. Tatnall, dated September 24, 1915.

(The document referred to was marked "Exhibit No. 2370" and is included in the appendix on p. 8359.)

Mr. BROWN. I offer for the record a letter from Mr. McKnight, the president of the Pennsylvania Co., to Mr. A. M. Anderson, dated June 2, 1915, simply showing the collateral underlying the Pennsylvania issue.

(The document referred to was marked "Exhibit No. 2371" and is included in the appendix on p. 8359.)

Mr. BROWN. We have been discussing the Pennsylvania, and the same arrangements were made in regard to the St. Paul, were they not, or similar?

Mr. WHITNEY. They were arrangements made with the St. Paul; yes, sir.

Mr. BROWN. I offer for the record a letter from J. P. Morgan & Co. to Messrs. Kuhn, Loeb & Co., dated January 17, 1916. This is from Kuhn, Loeb & Co., and won't be in your book, although it is addressed to you and upon your stationery.

(The document referred to was marked "Exhibit No. 2372" and is included in the appendix on p. 8360.)

Mr. BROWN. I call attention to the second paragraph of that letter, in which it says [reading]:

> We agreed to sell to you, and you agreed to purchase from us, francs 153,051,000, 4-percent bonds of the above loan at a price of francs 476.50 per francs 500 principal amount, plus accrued interest to the date of your payment therefor, such purchase price to be payable in dollars to us at the fixed rate of exchange of francs 5.90 to the dollar.

Which is not the exchange rate at which the railroad was refunding these issues.

Mr. **Whitney**. I suppose it was the rate of the day, was it not?

Mr. **Brown**. I suppose it must have been.

I offer for the record a letter from Mr. Schiff, I believe it is—it is only initialed "S"—dated October 29, 1915, to Mr. Percy A. Rockefeller, and I call your attention to the last paragraph of that letter [reading]:

> I would also call to your attention that while the company carries on its books the French debt at $96.3533 per franc 500 bond, it would doubtless cost the company more than this to repay them after the war is over.

(The document referred to was marked "Exhibit No. 2373" and is included in the appendix on p. 8361.)

Mr. **Brown**. That turned out to be a very bad prophecy, did it not?

Mr. **Whitney**. If they had quit entirely, whatever it was, 1926.

Mr. **Brown**. It so happened that this bond issue which was refunded at the par of exchange in dollars by the railroad was the first bond which went into default after the St. Paul went into receivership, after the war?

Mr. **Whitney**. I do not know that.

Mr. **Brown**. When the franc was selling at 5 cents?

Mr. **Whitney**. I do not know. Did they lengthen the maturity on the Pennsylvania bonds?

Mr. **Brown**. I believe not.

Mr. **Whitney**. I am asking as a matter of curiosity.

Mr. **Brown**. It is in the record. The franc issue of the Pennsylvania matured in 1916, and the franc issue of the St. Paul matured in 1925. As I recall the record, that particular incident, that was the bond issue which put the St. Paul into receivership at a time when the franc was selling at 5 cents.

Mr. **Whitney**. Which time?

Mr. **Brown**. 1925.

Mr. **Whitney**. The first time.

Mr. **Brown**. I offer for the record some more letters, which I will just enumerate here, being a confidential memorandum dated October 29, 1915.

Mr. **Whitney**. May I ask whose memorandum this is?

Mr. **Brown**. A confidential Kuhn, Loeb memorandum.

Mr. **Lamont**. To themselves?

Mr. **Brown**. Yes, sir; an interoffice memorandum. It is just for the record.

Mr. **Whitney**. Does it have anything to do with us?

Mr. **Brown**. It does not have anything to do with you. It is simply for the completeness of the record.

Mr. **Lamont**. We never had any connection of any kind with the St. Paul Road.

(The document referred to was marked "Exhibit No. 2374" and is included in the appendix on p. 8361.)

Mr. **Brown**. I also offer a letter from Kuhn, Loeb & Co. to the Chicago, Milwaukee & St. Paul, dated December 13, 1915.

(The document referred to was marked "Exhibit No. 2375" and is included in the appendix on p. 8362.)

Mr. **Brown**. I also offer a letter from H. R. Williams, of the Chicago, Milwaukee & St. Paul to Kuhn, Loeb & Co. and the National City Bank, dated December 16, 1915.

(The document referred to was marked "Exhibit No. 2376" and is included in the appendix on p. 8364.)

Mr. **Brown**. I also offer for the record a letter, apparently from Jacob Schiff, to the Chicago, Milwaukee & St. Paul, dated December 16, 1915.

(The document referred to was marked "Exhibit No. 2377" and is included in the appendix on p. 8364.)

Mr. **Brown**. I also offer for the record a letter from Mr. Williams, of the St. Paul, to Kuhn, Loeb & Co. and National City bank, dated December 16, 1915.

(The document referred to was marked "Exhibit No. 2378" and is included in the appendix on p. 8364.)

Mr. **Brown**. I also offer for the record a letter from Mr. Williams to Kuhn, Loeb & Co., dated January 19, 1916.

(The document referred to was marked "Exhibit No. 2379" and is included in the appendix on p. 8365.)

Mr. **Brown**. You had an interest with National City Bank in the sale of the St. Paul, did you not?

Mr. **Whitney**. It has been a matter of common knowledge, and frequently testified to in the past 25 years, that we had an arrangement of reinsurance with the National City, whereby each offered the other a one-fourth interest in any of the purchases having to do with the bonds, and in this we had a quarter of the City Co.'s share.

Mr. **Brown**. I offer for the record a letter from someone unknown at Kuhn, Loeb & Co., addressed to Messrs. Clark, Dodge & Co., dated January 19, 1916.

(The document referred to was marked "Exhibit No. 2380" and is included in the appendix on p. 8365.)

Mr. **Brown**. I also offer for the record a syndicate list from Kuhn, Loeb & Co. of the Pennsylvania dollar bonds.

(The document referred to was marked "Exhibit No. 2381" and is included in the appendix on p. 8366.)

Mr. **Brown**. Then I offer for the record statements re Rothschild Freres loan, from your books, which has been referred to.

(The document referred to was marked "Exhibit No. 2382" and is included in the appendix on p. 8366.)

Mr. **Brown**. I also offer for the record a statement from Kuhn, Loeb & Co. of the profits on the operation in Pennsylvania and Milwaukee bonds, and from these statements it appears that on the Pennsylvania operation——

Mr. **Lamont**. This is on profits to the Kuhn, Loeb syndicate?

Mr. **Brown**. To the Kuhn, Loeb syndicate. It appears that Kuhn, Loeb's profit on Pennsylvania was $860,367.33, and the Pennsylvania profit was $859,361.34.

(The documents referred to were marked "Exhibit No. 2383" and are included in the appendix on p. 8372.)

Mr. **Brown**. On the Milwaukee operation, which was the issue, as I recall it, which put them into bankruptcy, the total profit was $3,626,971.33, of which Kuhn, Loeb & Co. received $970,649.48, and National City Co. $792,483.46, and Clark, Dodge & Co., $53,567.65.

Of the National City's share, J. P. Morgan received, according to the statement, $181,927.40.

Mr. **Whitney**. Mr. Brown, just a couple of moments, if I can make a correction. All our profits over the years 1916, 1917, 1918, and 1919 were 104,000.

Mr. **Brown**. Have I misread the figures?

Mr. **Whitney**. In the second place, I do not think it matters much, but you said this was the issue which put the St. Paul in receivership. What you said earlier was the first issue on which they defaulted.

Mr. **Brown**. The first statement was correct.

Mr. **Whitney**. It was the first issue, but not the issue which put them into receivership. It was the first issue on which they defaulted.

Mr. **Brown**. It was the first issue on which they defaulted.

To complete the record, I offer a J. P. Morgan & Co. memorandum in regard to a similar transaction in New Haven bonds, in which again the New Haven Railroad issued dollar bonds at the formal parity of exchange in return for franc bonds in the amount of 75,237,500 francs, which amounted in dollars—I believe it is here somewhere—$14,118,529.

(The document referred to was marked "Exhibit No. 2384" and is included in the appendix on p. 8384.)

The **Chairman**. The Committee will be in recess for 10 minutes.

(Whereupon, at this point a 10-minute recess was taken, after which the proceedings were resumed as follows:)

(Senator Barbour presiding.)

ACCEPTANCES 1915[1]

Senator **Barbour**. The Committee will please come to order. Are you ready to proceed, Mr. Brown?

Mr. **Brown**. I am ready to proceed, Mr. Chairman.

Mr. Chairman, further this afternoon we wish to take up the question of acceptances. The wartime acceptance business, as we see it, is a necessary part of wartime financing, and is doubly interesting because it is another form of belligerent obligation, floated in those years, in which the reserves of the American banking system, the Federal Reserve banks, as distinguished from the members, are involved, and although J. P. Morgan & Co. were not directly involved in most of the negotiations in regard to acceptances, the record will show that the firm was not entirely without interest in the subject, which is the reason for bringing it up at this time.

I first offer a cable of December 3, 1914, to H. P. Davison in Paris from Morgan & Co. in New York.

The cable reads [reading "Exhibit No. 2385"]:

> In spite statements made to Herman——

that is Mr. Harjes, is it not?

Mr. **Lamont**. Yes, sir.

---

[1] Documents dealing with further acceptance transactions will be found among "Exhibit No. 3218", Hearings, Part XXX; "Exhibits Nos. 3557 through 3658 and 3883 through 3899", Hearings, Part XXXI.

Mr. Brown (continuing reading):

> In spite statements made to Herman to contrary, we know France urging manufacturers here take payment for materials in 5-percent Treasury notes running 6 to 12 months. We have two positive instances of this, one of them Ford Motors. These manufacturers in general declining such notes on valid ground that market for them indeterminate, fluctuating, etc.
>
> France can accomplish same purpose in large measure by drawing on us 90 days, possibly; one renewal same period agreeing repay such drafts dollars here or sterling London. Possibly if exchange at time of payment permits we could accept payment in gold in Paris. Foregoing simply for your information.

(The document referred to was marked "Exhibit No. 2385" and appears in full in the text.)

Mr. Brown. Could you, for the sake of the record, explain the nature of a banker's acceptance, taking just one form of acceptance to keep it straight?

Mr. Lamont. I will refer you to Mr. Morgan on that.

Mr. Morgan. A banker's acceptance is a bill drawn by the furnisher of some goods on a bank. The bank gives the right to draw that acceptance under somebody's guarantee; it accepts for somebody, but their name being better known than the other individual's, they write across the front of the bill "Accepted", and they accept a bill for a dated term, 90 days or 60 days after sight.

Then that bill is handed back to the man who presented it for acceptance, and he sells it in the market, and it is a perfectly good investment for a bank, or for a trust company, or even for a private person.

Mr. Brown. The security of the buyer, Mr. Morgan, is the acceptance stamp of the accepting bank, is it not?

Mr. Morgan. It is the name of the accepting bank.

Mr. Brown. Is it the security of the accepting bank?

Mr. Morgan. The accepting bank has the security they receive; they either have a claim on the goods to be imported or a charge on them, if they are exported, or they have the promise or undertaking of the house that asked for the acceptance to take it up when due.

Mr. Brown. It is normally, is it not, the first, rather than the second?

Mr. Morgan. What?

Mr. Brown. Is there any particular choice whether it is secured by the goods or secured by the general credit?

Mr. Morgan. It depends on the general credit. If a man has not got a good enough general credit, they exact the goods also.

Mr. Brown. That instrument is used largely, is it not, in financing exports and imports?

Mr. Morgan. In financing exports and imports largely, but it can be used in domestic trade just as well.

Mr. Brown. I call your attention to a cable dated December 9, 1914, from Mr. Davison, in London, to J. P. Morgan & Co., in which I call your attention to only the last paragraph. [Reading:]

> How much do you suppose our market would take of like acceptances, say 90 days with one renewal? This suggestion sent for your consideration, as yet matter entirely indefinite this side.

Mr. Lamont. What cable is it?

Mr. Brown. December 9, 1914.

Mr. Lamont. Yes, sir.

Mr. **Brown**. No. 9. Mr. Davison at this time was apparently interested in how much the American market would take of these acceptances.

(The document referred to was marked "Exhibit No. 2386", and is included in the appendix on p. 8384.)

Mr. **Brown**. Now, these acceptances, by reason of their short term, their extreme liquidity, are always eligible for purchase by the Reserve banks?

Mr. **Whitney**. Under regulation.

Mr. **Brown**. Under regulation of the Reserve Board. In regard to a great many kinds of paper on the market, the Reserve banks cannot buy them, but those may be rediscounted by member banks or purchased in the open market?

Mr. **Whitney**. Maybe.

Mr. **Brown**. Just recalling for a moment a cable that was read into the record this morning on the Russian acceptances, you were aware, were you not, that if there were to be any widespread Allied acceptances in this market, it would have to be after approval and consideration by the Federal Reserve Board?

Mr. **Morgan**. They have general rules which they make in regard to what acceptances could be rediscounted by the Federal Board, or what acceptances they would buy in the market.

Mr. **Brown**. The cable reads:[1]

> * * * or give us time confer here with all chief interests looking toward acceptance proposition on a very large scale, in which we should be obliged seek open approval of Federal Reserve Board at Washington inasmuch as such steps would involve cooperation of many national banks and adoption of a policy by Administration toward all belligerents alike.
>
> We shall await your further comments meanwhile conferring privately with associates like G. F. Baker.

Mr. **Whitney**. That was not in connection with the Russian at all.

Mr. **Brown**. It was read in on that discussion, but apparently concerns the French negotiations which we were considering here.

Mr. **Whitney**. The rules were being changed.

Mr. **Morgan**. The rules were being changed. The Federal Reserve banks had just been started, and they had not got the thing organized yet. It was an entirely new method of financing in this country.

Mr. **Brown**. The question right at the outset was up to this Government body, the Federal Reserve Board.

Mr. **Morgan**. Yes, it was supposed to be less political than it afterward became, with less actual Government.

Mr. **Brown**. Were not the Comptroller of the Currency and the Secretary of the Treasury ex-officio members of the Board?

Mr. **Morgan**. They were members of the Board; yes.

Mr. **Brown**. And the other members of the Board are appointed by the President, are they not?

Mr. **Morgan**. Yes.

Mr. **Brown**. Do you recall whether at that time, in January 1915, there was any thought in anyone's mind of arriving at the large syndicate to draw the arrangements which were afterward issued?

Mr. **Morgan**. I cannot remember. There were so many things which went over at that time.

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[1] See "Exhibit No. 2325", appendix, p. 8337.

Mr. **Brown**. That has been offered for the record.

I would like to introduce in the record a memorandum prepared for the Federal Reserve Board by Mr. Warburg, who was a member, dated 1915.

(The document referred to was marked "Exhibit No. 2387" and is included in the appendix on p. 8384).

Mr. **Brown**. I read the following which is pertinent [reading]:

> The question had to be considered—

That is of acceptance regulation—

> from several points of view—one the broad economic basis, involving the question of whether foreign governments shall be permitted to finance their requirements by using the rediscount facilities of the Federal Reserve Bank System or whether they should ~~not~~ be forced to do their financing in the security market by selling their long-term bonds or short-term Treasury notes. In the latter case, the appeal is to the investor, while if permitted to rediscount their bills of exchange drawn on American banks they would absorb the funds of the bill market; that is to say, the facilities which properly should be reserved for the requirements of commerce and trade, and for the individual borrower. One might say, for the "smaller" borrower, because what applies to a government would apply with equal force to the larger corporations * * *.

Further in the same memorandum he uses this language [reading]:

> If this broad view be adopted—

that is, the export as well as the import market—

> If this broad view be adopted, it would dispose of the second angle from which the problem will have to be viewed; that is, the question of whether Federal Reserve banks should purchase bills drawn by or for account of foreign governments which are belligerents.

Mr. **Morgan**. Whether the Federal banks should purchase?

Mr. **Brown**. Yes, sir.

Mr. **Morgan**. Yes, sir.

Mr. **Brown**. Under his interpretation, as I take it, if the regulations were so drawn—I should not address this to you but to the Chair—if the regulations were so drawn as to exclude the belligerent governments financing from the market, the question of whether they could aid belligerent governments would not occur.

Senator **Barbour**. To whom is the memorandum addressed?

Mr. **Brown**. It is addressed to the Board.

He points out further [reading]:

> The question, if put in this form, would have been not one to be disposed of by the Federal Reserve Board but rather by those in charge of our national policy.

He says the door is open to these belligerent obligations.

Further on it has this to say [reading]:

> It is only when the foreign government wants to use its own credit in our market and secures accommodation, not as a direct borrower selling its own treasury notes, but by the subterfuge of letting the banker accept, and when it secures such credit from the bill market instead of from the investor, that the regulation would act as a preventive.

I take it, Mr. Chairman, this merely indicates that the Board at that time was concerned with a certain problem, the problem of keeping the discount market clear of what might be conceived to be investment paper, and then with the problem of neutrality, of the propriety of Reserve Bank funds being at the disposal of belligerent governments.

I call your attention now to cable dated March 29, 1915, from Mr. Morgan in London.

Senator **Barbour**. By the way, is there anything on which any of the witnesses want to comment in this connection?

Mr. **Lamont**. No; thank you.

Mr. **Brown**. That is offered for the record.

(The document referred to was marked "Exhibit No. 2388" and is included in the appendix on p. 8386).

Mr. **Brown**. That cable reads:

> Believe it will be desirable for the present to work along all the lines by which we can create exchange. (Stop.) Ask Strong if Federal Reserve Board have decided as to approving purchase by Federal Reserve Banks of bills drawn by joint-stock banks here on United States of America acceptors, proceeds to be used for export materials.

This would seem to indicate that the acceptance business was one of considerable interest to you, Mr. Morgan.

Mr. **Morgan**. Yes. You say it was of considerable interest to me?

Mr. **Brown**. Yes; as a step in Allied financing, the possibility of using acceptances.

Mr. **Morgan**. I was trying to work on all the ways by which we could create exchange, and this was rather a good one, I thought at the time.

Mr. **Brown**. I introduce in the record at this point a letter signed "Harry"—Mr. Davison, I take it—to Benjamin Strong, Jr., governor of the Federal Reserve Bank of New York, dated April 9, 1915.

(The document referred to was marked "Exhibit No. 2389" and appears in full in the text.)

Mr. **Brown**. That letter reads as follows:

> Dear Ben: Herein please find copy of a cablegram received from Mr. Morgan, under date of March 29. The message explains itself and I will appreciate any suggestion of a reply which you may make to be communicated to Mr. Morgan.
>
> Very truly yours,

At this point, Mr. Chairman, I would like to introduce several minutes of the Federal Reserve Board, at various dates, January 9, January 14, 15, 28, 28, February 1, February 2, February 6, February 9, February 11, all of which are merely for the purpose of showing that this matter of acceptance regulation was at that time under consideration by the Reserve Board.

(The documents referred to were marked, respectively, "Exhibits Nos. 2390 to 2399", inclusive, and are included in the appendix on pp. 8387 and 8388.)

Mr. **Brown**. I wish next to introduce in the record a letter from Governor Strong to F. A. Delano, of the Federal Reserve Board, in which the following passage occurs, the letter being dated February 8, 1915 [reading]:

> In conclusion, permit me to repeat briefly one portion of the statement which I made to the Board Friday afternoon: Our merchants and manufacturers are now conducting a perfectly lawful trade with foreign customers. A very considerable part of that trade may be with belligerent nations and may consist of articles which are contraband or conditional contraband of war. Commerce of that character is authorized by our own laws and by international law and convention. It seems to me that any different rule applied to the credits which are extended for the purpose of conduct of that commerce should be adopted with great caution, and the objection which I made to the proposed regulation was based upon my belief, first, that the same rule of

neutrality should apply to the credit as does apply to the commercial transaction; second, that any policy to be adopted by our Government in regard to this matter should not be made the subject of regulation by the Federal Reserve Board, but should be determined by the President of the United States.

(The document referred to was marked "Exhibit No. 2400", and is included in the appendix on p. 8389.)

Mr. BROWN. On March 29, 1915, Mr. Davison cabled Mr. Morgan in London, cable no. 1647, in answer to the cable already in the record.

(The document referred to was marked "Exhibit No. 2401" and appears in full in the text.)

Mr. BROWN. That reads as follows:

> 1647. For J. P. Morgan. Your 2632. Strong away. Have had conference Pierre Jay, who states matter is just now having consideration Federal Reserve Board, he having shown me memorandum of subject as being considered. Jay assures me he and Strong, who returns Monday, will do all possible expedite consideration and settlement this subject. H. P. DAVISON.

Mr. BROWN. I wish, Mr. Chairman, at this point, to introduce in the record the minutes of the Federal Reserve Board of April 2, 1915, following the adoption of regulations J and K, the regulations being set out in a letter of Governor Strong to Pierre Jay, of April 7, 1915, which defines the various acceptances. They are both offered for the record.

(The documents referred to were marked "Exhibits Nos. 2402 and 2403" and are included in the appendix on p. 8390.)

Mr. BROWN. The letter of April 7, 1915, reads in part as follows [reading]:

> A bankers' acceptance must be drawn by a commercial, industrial, or agricultural concern (that is, some person, firm, company, or corporation) directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated, or by a banker. In the latter case, the goods, the importation or exportation of which is to be financed by the acceptance, must be clearly specified in the agreement with or the letter of advice to the acceptor. The bill must not be drawn or renewed after the goods have been surrendered to the purchaser or consignee.

I take that to mean that the bill may run after the goods have been consigned. And, just as bankers, I would like to have your opinion that that is the correct interpretation.

Senator BARBOUR. I take it that that is the correct interpretation?

Mr. MORGAN. You went along fast, and I have not seen this.

Senator BARBOUR. Perhaps one of the other witnesses could answer the question.

Mr. BROWN. I addressed my question to Mr. Whitney, and he sort of nodded.

Mr. WHITNEY. I think so; but——

Mr. WARDWELL. It permitted one renewal.

Mr. BROWN. It permitted one renewal prior to acceptance of the goods?

Mr. MORGAN. Not necessarily. One acceptance in connection with those goods. Sometimes they are in process of manufacture and do not get ready in time to have the man pay them in 3 months.

Mr. BROWN. It says [reading]:

> The bill must not be drawn or renewed after the goods have been surrendered to the purchaser or consignee.

Mr. MORGAN. All right.

Mr. **Wardwell**. The thing about which you were talking as to the regulation had to do with a banker's acceptance, not the acceptance drawn by the exporting or importing house.

Mr. **Brown**. This is defined as a banker's acceptance, Mr. Wardwell. I do not know.

Mr. **Wardwell**. That is what they were talking about in that letter; and that is, of course, a common practice today.

Mr. **Whitney**. The difference between D and J is that J covered a bill drawn by a banker, and in D the banker was excluded, and just the importing or exporting firm.

Mr. **Wardwell**. That is what they were talking about.

Mr. **Brown**. At this time I wish to enter in the record a letter from Governor Strong to Mr. H. P. Davison, of April 9, 1915, in which copies of circulars J and K were enclosed.

(The document referred to was marked "Exhibit No. 2404" and is included in the appendix on p. 8391.)

Mr. **Brown**. That letter reads in part as follows [reading]:

> By comparison of this regulation with the one which preceded it, possibly you can arrange to cable the changes to Mr. Morgan, and you will note that the important ones are contained in paragraphs (*c*) and (*f*) of article 4. I doubt if this language requires any particular explanation except that I think it is fair to assume that the regulation will be liberally interpreted in the interest of our own commerce and banking.

There is a further cablegram from Mr. Davison to Mr. Morgan of April 10, 1915, which I offer for appropriate number.

(The document referred to was marked "Exhibit No. 2405" and appears in full in the text.)

Mr. **Brown**. That cable reads as follows:

> 1825. For J. P. Morgan. Your 2633. Strong advises us that Federal Reserve Board have now ruled so that, in his opinion, drafts drawn by London bankers or merchants accepted by New York banks or bankers, proceeds of which shall be used in payment for export of goods, may be received by Federal Reserve banks. If this plan should in future receive serious consideration, suggest we be advised in time to take up specifically in order to assure proceeding technically correct.

On April 12, 1915, there is cable no. 2810, which is offered for the record.

(The document referred to was marked "Exhibit No. 2406" and appears in full in the text.)

Mr. **Brown**. That cable reads as follows:

> 2810. For H. P. Davison. Your 1825. Tell Strong glad Federal Reserve Board have made that ruling. Should business materialize will cable full details so you can get his assurance. J. P. Morgan.

Mr. **Brown**. At this point I introduce for the record a letter from Mr. Wolcott to Mr. Tracy, another one of these Bonbright letters. By the way, just to state as a matter of record, the present Bonbright Co. has absolutely no connection with the Bonbright Co. of these times. It is twice removed, I believe, sold and resold.

Mr. **Whitney**. Thank you.

(The document referred to was marked "Exhibit No. 2407", and is included in the appendix on p. 8391.)

Mr. **Brown**. That letter reads in part as follows:

> We may have been remiss in keeping you in touch with the various steps of our development, but we have tried to tell you frankly everything, and we admit that the business, because of the terms we are trying to impose upon the

foreign governments, has come to a practical deadlock, but we all feel that we are only on the eve of a very large and important and comparatively safe business if we keep our heads cool and do not scatter our efforts. We are learning by experience and everyone who comes back from the other side, such men as Mr. Blackall, Captain Hunsiker (from England, and a friend of Lord Fairfax), and others say we must stand by our resolution to insist upon payment cash or satisfactory government securities, f. o. b. New York. Mr. Blackall would not even consider for a moment the question of payment on arrival of documents in France by a concern as unquestionably good as Schneider & Co., although the goods have been inspected and accepted on this side and, although I would not say now that we may not modify our decision somewhat, in the case of Schneider & Co., if we could do a large amount of business with them, allowing them to pay in France if we were protected on exchange, provided the goods were inspected and accepted on this side * * * —

The rest is of no moment.

I take that to be a sample that at this time the American manufacturers were exactly in the attitude expressed by that letter. They insisted upon payment of cash f. o. b. New York, and they had no particular zeal to be paid in sterling or franc drafts to be collected at a rate that they could not exactly determine. Is that correct?

Mr. **Lamont**. I do not think it had been put up to them. They were being paid in cash.

Mr. **Brown**. Undoubtedly they would have declined to have been paid in anything else, would they not?

Mr. **Whitney**. Our own experience is that all our contracts were f. o. b. either at the plant or at New York.

Mr. **Brown**. I will introduce a letter dated June 8, 1915, from James Brown to Benjamin Strong, in which he wants to make certain that acceptances will be rediscountable with the Federal Reserve Bank.

(The document referred to was marked "Exhibit No. 2408" and is included in the appendix on p. 8392.)

Mr. **Brown**. I introduce in the record, Mr. Chairman, a letter from Benjamin Strong to Mr. Warburg, of the Reserve Board, in which he outlines a credit which apparently has been talked about by James Brown, of Brown Bros., and I better read the entire letter, or parts of it [reading]:

The drafts will be drawn at 90 days sight, although the maximum amount of credit, I am informed, will be continued as open credit for a period of 9 months. Drafts will be drawn individually by the members of the French institutions on the individual banks in America, in proportion to their respective interests in the respective syndicates; that is, drawing syndicate in France and accepting syndicate in America. Proceeds of the drafts when discounted are to be held by Brown Bros. & Co. as syndicate managers and paid on orders from the manager of the French group, but only for purchase of American goods for shipment abroad, as evidenced by the shipping documents.

The time drafts will bear on their face the evidence of having been drawn under the above credit. The object of the arrangement is to place dollar exchange at the disposal of the French banks to be sold to their customers as required to make payment for goods purchased in this country. The credit has no relation to orders for war materials, although if any particular customer of any one of the French group should happen to be an importer of such goods, there would be no prohibition against his being furnished with exchange.

This transaction is not undertaken for account of the French Government, but I am advised is strictly a banking transaction between the banks of the two countries.

(The document referred to was marked "Exhibit No. 2409", and is included in the appendix on p, 8392.)

Mr. **Whitney**. That is somewhere along the end of June or July?

Mr. **Brown.** That is dated June 9th, excuse me.

On June 17, 1915, a further letter to the Board, this time from Pierre Jay, describing the credit in similar terms, the only point of interest being [reading]:

> The proceeds of the original drafts go into a special fund and are used only once in financing exports, but the French syndicate is given 9 months within which to cover.

The letter has nothing to say, nothing about any arrangement for repayment of the credit.

(The document referred to was marked "Exhibit No. 2410", and is included in the appendix on p. 8393.)

Mr. **Brown.** I would like to come back to those two letters in a moment.

I introduce in the record at this point the minutes of the Federal Reserve Board of June 10, 1915, June 15, 1915, and July 9, 1915. The only point there of any interest is that at the meeting of June 15 Mr. Warburg expressed the opinion there ought to be a definite time within which the proceeds of drafts drawn by the French bankers could be used.

(The documents referred to were marked "Exhibits 2411, 2412, and 2413", respectively, and are included in the appendix on p. 8394.)

Mr. **Brown.** On July 9, 1915, you received a letter, I believe, from Brown Brothers & Co., outlining this credit, and the first part is substantially identical with the two letters already in the record, and on the second page it says [reading]:

> The performance of these engagements on the part of the French group is to be guaranteed by the Bank of France in a manner satisfactory to us and is further to be secured by deposit with us, with power of rehypothecation and sale, of Bons de la Defense National and/or French Treasury bills, in francs, payable about 1 year hence to an amount at least equal to the face of the drafts as drawn, at approximately the rate of exchange prevailing at the time the agreements are executed in France.

(The document referred to was marked "Exhibit No. 2414", and is included in the appendix on p. 8395.)

Mr. **Brown.** I just wish to note in passing, Mr. Chairman, that this is an item which is not contained in either of the two letters from the Federal Reserve Bank of New York describing that credit to the Federal Reserve Board.

Mr. **Whitney.** That was a letter which you read from Brown Bros. & Co. to J. P. Morgan & Co.?

Mr. **Brown.** That is a letter from Brown Bros. & Co. to J. P. Morgan & Co.

We consider Brown Bros. are advising that the acceptances will be eligible to the Federal Reserve Board.

I merely note that in passing.

I call your attention to a cable from Morgan in New York to Mr. Davison on July 8, 1915, no. 5248, in which substantially the same picture is dispatched to Mr. Davison. I offer that for appropriate number.

(The document referred to was marked "Exhibit No. 2415" and is included in the appendix on p. 8396.)

Mr. **Brown.** That cable, in part, reads as follows [reading]:

> The $20,000,000 is to be covered by French Government treasury bills, and payment of the amount to be guaranteed by Bank of France in gold in New York City at the expiration of the 9 months. Brown Bros. & Co. to be managers of

the syndicate and hold the treasury bills here and receive one-half or three-fourths for their services. They have arranged with Federal Reserve Bank that drafts and both renewals shall be discountable, Brown Bros. & Co. guaranteeing that proceeds of original drafts will be used only in payment for goods exported.

Mr. WHITNEY. That is just paraphrasing Brown Bros.' letter?

Mr. BROWN. That is just paraphrasing Brown Bros.' letter.

Shortly after, on July 20, 1915, I call your attention to cable no. 5490, from Mr. Davison in London—excuse me, that is from Mr. Davison in New York to London, to E. C. Grenfell—which I offer for the record.

(The document referred to was marked "Exhibit No. 2416" and is included in the appendix on p. 8396.)

Mr. BROWN. That cable reads in part as follows:

> Have today had a long talk with Governor, Federal Reserve Bank, who suggests that one way of helping situation would be for joint-stock banks to temporarily arrange with New York banks that acceptance heretofore made by London joint-stock banks on merchandise be made in dollars by New York banks, under the guarantee of London joint-stock banks. You will see that the effect of this would be to take off from the market all bills covering exports of usual produce and merchandise, which in ordinary course are covered by bills.

Lower down it states [reading]:

> Disadvantages would seem to be the possible development of dollar business heretofore sterling business, but as conditions are abnormal, all resources possible must be considered. You understand our interest in this situation is only that of general welfare and in the interest of British credit, as we see it.

Now you realize, I take it, that any real development of the dollar acceptances would be rather unpalatable to the British banks. Is that a correct interpretation to draw from the cable?

Mr. WHITNEY. Of course the acceptance business up to that time had been largely centralized in London.

Mr. BROWN. And they had the feeling, or would have had the feeling, or you thought they would have the feeling, that if the American banks began to develop a large acceptance business, it would be sort of "poaching on their preserves"?

Mr. WHITNEY. Not that, but in handling the various shipments they had done that. Mr. Morgan knows better than I.

Mr. MORGAN. The British 90-day bill was the general thing. Everybody drew bills on London for things they wanted to pay, whether they were shipped from New York, Kamchatka, or wherever it was, and the bills were drawn on London and were taken care of there, and the clients made their connection with London and paid up the bills when they came due.

Mr. BROWN. As I take it, up to the end of July 1915, on this particular type of transaction, you had the feeling that it would be advantageous to England's position to pass a little of that business over to the American banks, and that you also felt that it would be advantageous for the French to do likewise, and you felt that this matter would have to be regulated by the Federal Reserve Board?

Mr. MORGAN. Obviously.

Mr. BROWN. I wish to introduce in the record a letter from Frederic A. Delano to Mr. Strong, dated July 22, 1915, Mr. Delano being a member of the Federal Reserve Board.

(The document referred to was marked "Exhibit No. 2417" and appears in full in the text.)

Mr. **Brown**. That letter reads as follows:

> [Confidential]
>
> My Dear Mr. Strong: I am starting on my vacation on Saturday the 31st and before I go I would like very much to have a talk with Mr. Morgan in regard to foreign credits. I see no objection to your being present but there may be some reasons against it which would deter you. I do not want to go away for several weeks without having a better idea of the situation toward which we are drifting. You know my sympathies and my object is simply to inform myself as an individual member of this Board. I do not want to embarrass Mr. Morgan and I am sure he can trust me to be discreet with any information he may give me.
>
> I do not think anyone here appreciates the gravity of the situation—and unfortunately for the country the sympathies of one of our colleagues makes it impossible to confide in him.
>
> If you could make an appointment for Monday (preferably either morning or afternoon) I should like it very much. No one here knows of this and I would handle it as quietly as possible.
>
> Sincerely yours,

Mr. **Whitney**. What is the date of that letter?

Mr. **Brown**. July 22, 1915. You did not, as a matter of fact, see Mr. Delano, did you, Mr. Morgan?

Mr. **Morgan**. I did not what?

Mr. **Brown**. You did not see Mr. Delano?

Mr. **Morgan**. I do not think I did. I was laid up at that time, from the 3d of July until about the 10th of August.

Mr. **Brown**. Do you recall if Mr. Davison saw Mr. Delano upon that occasion?

Mr. **Lamont**. I do not recall. I was in the Far West at that time, Mr. Brown, and I do not recall whether Mr. Davison did or not.

Mr. **Brown**. This does not elicit any memory or recollection as to what the serious situation was which was concerning Mr. Delano, or why he should turn to Mr. Morgan about it?

Mr. **Lamont**. Not the slightest. I suppose Mr. Delano had been acquainted with Mr. Morgan for quite some time, and thought he might be able to get some information from him. That is all I can think of.

Mr. **Whitney**. He was probably worried about exchange.

Mr. **Morgan**. He was probably worried about exchange, like everybody else.

Mr. **Whitney**. That is July?

Mr. **Brown**. July 22. That was the time you were opposing an unsecured loan, was it not?

Mr. **Lamont**. I beg your pardon?

Mr. **Brown**. That was the time you were opposing an unsecured loan, was it not?

Mr. **Lamont**. I cannot remember exact dates, Mr. Brown, but during July we were not advocating an unsecured loan, and then in August we made a proposition for an unsecured loan.

Senator **Barbour**. For an unsecured loan?

Mr. **Lamont**. Yes, sir; conditions changed, Mr. Chairman, so that it seem to us possible to make an offer for $100,000,000 unsecured.

Mr. **Brown**. I now offer for the record, Mr. Chairman, a letter from Colonel House to President Wilson, dated July 28, 1915, and read only the pertinent passage of it [reading]:

> Delano and Governor Strong of the New York Federal Reserve Bank were here yesterday to see me concerning the serious condition that confronts us

in regard to foreign exchange. They believe that unless the Federal Reserve System broadens its basis of credits that another month or two will bring about a crisis and almost a complete breakdown of our foreign trade.

They told me that three of the Reserve Board are in favor of broadening the credits, but that two are opposed to it. They did not give the names for it was not necessary.

My advice was that while we were living under abnormal conditions we should have the courage to meet them in a way that will redound to the advantage of our country, and that credits should be broadened as far as perfect safety would permit. I hope this view meets with your approval.

Mr. Whitney. What date was that again, Mr. Brown?

Mr. Brown. That was July 28, the next week after Mr. Delano's request for a conference with Mr. Morgan and Mr. Strong.

Mr. Morgan. Where was it dated from?

Mr. Brown. Manchester, Mass., to the President at Cornish, N. H.

Mr. Morgan. Then, probably Delano had seen Strong and gone on there with him.

Mr. Whitney. It is interesting to note, Mr. Chairman, that that letter was Mr. Delano's, and Mr. Strong was written that letter before the British asked us to open a credit for the purpose of purchasing exchange, which was on the 23d of July. Way back there many others than ourselves were concerned about exchange.

Mr. Brown. That is offered for the record.

(The document referred to was marked "Exhibit No. 2418" and is included in the appendix on p. 8397.)

Mr. Brown. Mr. Chairman, I introduce in the record a diary entry from Colonel House, dated August 3, 1915.

(The document referred to was marked "Exhibit No. 2419" and is included in the appendix on p. 8398.)

Mr. Brown. That reads in part as follows [reading]:

Governor Charles Hamlin of the Federal Reserve Board lunched with me today. He gave a full account of the inside workings of the Board. He said Paul Warburg had been perfectly fair and had not injected his feelings into the situation but he was not as broad a man as he had first thought.

[Laughter.]

Further down it states [continuing reading]:

We went into the question of broadening credits and I found he was not impressed with the importance of this as was Delano and Strong. I therefore endeavored to straighten him out in this direction.

Further along the same line is a letter from Colonel House to President Wilson, dated August 27, 1915, which is offered for the record.

(The document referred to was marked "Exhibit No. 2420" and is included in the appendix on p. 8398.)

Mr. Brown. That letter reads in part as follows:

Dear Governor: You know, of course, there is trouble brewing in the Federal Reserve Board.

I sympathize with McAdoo's view in regard to foreign acceptances and I hope there may be some way of bringing it about without a public rupture.

To my mind, the Federal Reserve Act is the most beneficial piece of legislation that has been enacted in this country and I shall be surprised if history does not so regard it. It is unfortunate that any controversy has arisen among the members and, if I were in your place, I would caution McAdoo to go slow.

Miller might be gotten out a little later, and then, perhaps, Warburg would leave of his own volition. I am inclined to think he would.

[Laughter.]

Now the final letter of this series is one dated August 31, 1915, from the White House, signed by Woodrow Wilson, addressed to Colonel House, which is offered for the record.

(The document referred to was marked "Exhibit No. 2421", and is included in the appendix on p. 8398.)

Mr. **Brown**. That letter reads in part as follows:

> You are right about the Reserve Board imbroglio. And I think McAdoo thinks so too, now. Indeed, I think he raised the question about the action of certain members of the Board about that meeting—

That was the meeting which Mr. Davison attended at the subtreasury, which was spoken about this morning [continuing reading]:

> only to get a leverage for something bigger than the proper handling of acceptances and discounts.

Mr. **Whitney**. Where does it say "Mr. Davison"?

Mr. **Brown**. You read into the record the newspaper account at the subtreasury, and that is the meeting to which it refers.

Mr. **Whitney**. How do you know that? Does it say so?

Mr. **Brown**. That is mental checking. I am pretty sure of it. I would not say.

Mr. **Morgan**. May I ask that it be put in the record as a guess, then?

Mr. **Brown**. You are quite right. It is almost impossible to figure out those meetings, but that was the meeting in New York.

Mr. **Lamont**. Nobody accuses us of writing any of these letters for Colonel House, do they?

Mr. **Brown**. No. This shows that the leverage was something greater. That is the time that the clearance on the Anglo-French loan was under consideration, is it not? The record shows, as I recall it, that the British final clearance on that was September 7, in an oral conversation with Secretary Lansing. It is a matter of speculation, so Mr. McAdoo thought, but I wish to call your attention to that date.

Mr. **Lamont**. The Anglo-French mission arrived here September 9 and 10.

Mr. **Brown**. I am talking about the long letter put in the record several days ago, from Secretary Lansing to President Wilson, and the answer referred to Wilson's conversation on the 7th of September.[1]

Senator **Barbour**. This letter is August 31, Mr. Raushenbush.

Mr. **Raushenbush**. I would like to ask a question of Mr. Brown. Can you describe for everybody's benefit, including my own, what the situation about this often-referred-to scrapping in the Federal Reserve Board about acceptances was, and what would have happened if it had come out one way or the other? I do not think it is clear.

Mr. **Brown**. I think that question might almost be addressed to the witnesses, Mr. Raushenbush. What would have happened if the Federal Reserve Board had refused to allow the acceptances drawn up, on the part of the belligerent governments?

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[1] See "Exhibits Nos. 2236 and 2237", Hearings, Part XXVI, pp. 7882 and 7884.

Mr. Whitney. How many were there altogether?

Mr. Brown. About $135,000,000.

Mr. Whitney. Does that include the Russian 25,000,000, which had been paid off prior to this?

Mr. Brown. No; excluding that.

Mr. Lamont. They would have to take up the slack in some other way, I suppose.

Mr. Whitney. There would be 100,000,000 less financing.

Mr. Raushenbush. Do I get that correct?

Mr. Morgan. There was nothing to prevent the banks owning the acceptances, only they were not rediscountable at the Federal Reserve.

Mr. Brown. Then the result would have been that a certain burden on the Allied financing, that was carried by the Federal Reserve banks, the reserves of the country, a certain burden carried by them, would have had to have been carried by someone else?

Mr. Wardwell. Some portion of it.

Mr. Morgan. Some portion of it.

Senator Barbour. Does that answer the question, Mr. Raushenbush?

Mr. Raushenbush. I am not certain in my own mind. I notice both Mr. Davison and Brown Bros. in some cables put in back there were assuring everybody that they would be accepted by the Federal Reserve banks, and we got along further and there was still a scrap.

Mr. Brown. I think we will clear that up in a short while.

Mr. Whitney. Of course, the cable of Mr. Davison was merely paraphrasing a letter from Brown Bros., Mr. Raushenbush.

Mr. Raushenbush. He reported to Morgan in London that these acceptances may be received by the Federal Reserve bank. That is my notation on it.

Mr. Whitney. That was merely paraphrasing Brown Bros.' letter.

Mr. Brown. Mr. Chairman, I wish to offer for the record copy of the contract on this Brown Bros. credit, in which I wish to note in passing that the guarantee of the Bank of France attached on the document, because the matter became of grave importance afterward. This is the letter [reading]:

> I have the honor of acknowledging receipt of your letter of August 17, which reads as follows:
>
> "We have been informed of negotiations which you have undertaken in the United States with the view of opening a credit having for its object to assure facilities of exchange to the French purchasers of American merchandise and products.
>
> "We are glad to accept the role which you have reserved us in this operation, and we are happy to put our cooperation to the discretion of the Bank of France for the realization of the contract herein prepared under its control and for its account.
>
> "It is understood that the Bank of France will assume repayment either through exchange or, this failing, by shipments of gold, and will assume all risks of the operation."
>
> I have the honor to confirm to you our full agreement upon the contents of this letter.

(The letter and document referred to were marked "Exhibit No. 2422", and are included in the appendix on p. 8399.)

Mr. Whitney. Mr. Brown, this may not be pertinent, but I think it is: Do you happen to know how many of the 100,000,000-odd acceptances, about which we have been talking, were rediscounted with the Federal Reserve banks?

Mr. Brown. There are rough figures on that, Mr. Whitney, which I was coming to later.

Mr. Whitney. Excuse me. We have no record of it, and I wondered if you knew.

Mr. Brown. They varied at different periods.

Mr. Whitney. And different banks.

Mr. Brown. At different periods the amounts held rose because of the disposition of banks who needed funds to sell them in the market or rediscount them, if they were able, and at times there were practically no buyers in the market except the Reserve banks.

The guaranty indicates pretty clearly that the credit was negotiated by the Bank of France, and at that time there was a Government moratorium on the export of gold, so that it really is a de facto government credit.

Mr. Whitney. That is, the Brown Bros.' credit?

Mr. Brown. Yes, sir; although drawn in the name of certain French banks, whose names appear on the contract.

Mr. Chairman, at this point I would like to point out that the Reserve Board negotiated for quite a long period on this, and wrote several letters, to which nobody excepted, and the chief difficulty was apparently difficulty over a question of renewal, and if you will permit me a moment, I will try to bring that out here as clearly and as rapidly as possible.

On July 9, 1915, I offer a letter from Benjamin Strong to Mr. Delano, in which he states [reading]:

> These drafts—

That is the Brown Bros.' drafts—

> are to be negotiated in the market and the holder thereof is under no obligation to extend them after maturity—

I call your attention particularly to the words:

> the holder thereof is under no obligation to extend them after maturity.

(The document referred to was marked "Exhibit No. 2423", and is included in the appendix on p. 8406.)

Mr. Brown. As of July 15, 1915, I offer for the record the draft of a letter prepared by the Federal Reserve Board, signed by Mr. Delano, in which the statement is made——

Mr. Whitney. To whom, Mr. Brown?

Mr. Brown. To Governor Strong.

(The document referred to was marked "Exhibit No. 2424" and is included in the appendix on p. 8407.)

Mr. Brown. That letter reads, in part, as follows [reading]:

> I would also state that it is the opinion of the Board and the Comptroller that no contract could be entered into by the member bank accepting them—

that is, the drafts—

> which would at the time of accepting or offering to accept such drafts, provide for the renewal (by the holder)[1] of (any specific)[1] draft drawn under said letter of credit (beyond a period of 6 months).[1]

---

[1] See complete Exhibit, appendix, p. 8407, for explanation of parenthetical matter.

Personally I would not attach too much importance to that letter, because I think it was a misunderstanding.

It is clear from the interlining on this letter that Warburg considered that letter should read as follows [reading]:

> I would also state that it is the opinion of the Board and of the Comptroller that no contract would be entered into by the member banks accepting them, which would at the time of acceptance or offering to accept such drafts, provide for the renewal by the holder of any specific draft drawn.

I take it that you, as bankers, would subscribe to Mr. Warburg's interpretation rather than to the form as passed?

Mr. **Whitney**. We did not have anything to do with it.

Senator **Barbour**. Is this a corrected letter?

Mr. **Brown**. This is a draft which the Federal Reserve Board prepared at the time, to show the different version of the different members. The first was the one adopted, and the second was the version as Mr. Warburg wished to have it, and which I believe you stated, Mr. Whitney, is, under the law, according to your version, correct banking practice.

Mr. **Morgan**. That is correct.

Mr. **Whitney**. I think so, but I am not sure.

Mr. **Brown**. Pending these negotiations with the Board, Brown Bros. forwarded another letter to Governor Strong, dated July 10, 1915, which I offer for the record.

(The document referred to was marked "Exhibit No. 2425" and is included in the appendix on p. 8408.)

Mr. **Brown**. In that letter the statement is made [reading]:

> The credit is not for the purpose of financing the sale of war materials to the French Government.

Also in the letter of Brown Bros. they point out the importance of such problem as follows [reading]:

> French buyers of American merchandise and other commodities for export from the United States to Europe have found it difficult, owing to the extraordinary conditions now prevailing, to obtain credits or satisfactory exchange to enable them to settle their accounts with American merchants. On the other hand, American merchants have not been willing to sell to French merchants in the usual way because of the extraordinary exchange conditions; in consequence exports of American merchandise and other commodities to Europe have been, and may continue to be seriously curtailed unless adequate credit and exchange facilities are provided.

I wish to offer for the record the minutes of the Federal Reserve Board meeting of July 21, 1915, stating [reading]:

> The question of the terms of a letter to be sent to Governor Strong of New York regarding lines of acceptance credits was considered. No final action was taken.

(The document referred to was marked "Exhibit No. 2426" and appears in full in the text.)

Mr. **Brown**. It appears clear, Mr. Chairman, that Governor Strong opposed the first answer and asked for another.

Senator **Barbour**. I think the committee might feel that the letter under date of August 31, from President Woodrow Wilson, should be withdrawn from the members of the press until at least more members of the committee are here. That is my opinion, gentlemen, in the light of some things which have been said in the letter, which have nothing to do with the paragraph which was read; and on my own responsibility I would not like to turn that letter over to the press at this time.

VOICES. It is already on the wires.

Senator BARBOUR. Then it cannot be helped. I did not know what the other observations were which are in the letter.

Mr. MORGAN. Will it be in the records of the committee?

Senator BARBOUR. Excuse me?

Mr. MORGAN. Will the letter be in the records of the committee, or are you going to remove it from the record?

Senator BARBOUR. Personally, I would like to see it withdrawn from the records of the committee. That would be done, if I had the sole say of what should be done with it. I do not know whether the press can do it or not, but it might be possible to send some sort of check on it and see whether you can recall anything besides the paragraph which was read. I want to make clear that I knew nothing about the letter at all, and the paragraph which was read was perfectly proper. I myself think there are other parts of the letter which are unnecessary to these proceedings.

Mr. BROWN. Having put the letter into the record, perhaps I should apologize because I skimmed through all the irrelevant portions and I did not notice there was anything like that in it.

Senator BARBOUR. I am quite sure it was not intentional on your part, but I think the incident is unfortunate.

Mr. BROWN. Mr. Chairman, on July 28, 1915, the Federal Reserve Board wrote to Governor Strong, over the signature of Mr. Hamlin, in which the following paragraph only is pertinent [reading]:

> In the above paragraph the Board desires to make it clear that a national bank cannot lawfully enter into a contract obligating it at maturity of any specific draft to accept a new draft, which contract would obligate such bank at the time of the original acceptance to renew its credit for a period aggregating more than 6 months. Such an agreement, whether collateral or on the draft itself, would in substance amount to the acceptance of a draft having more than 6 months to run.

(The document referred to was marked "Exhibit No. 2427" and is included in the appendix on p. 8409.)

Mr. WHITNEY. These regulations all have to do with eligibility, do they not?

Mr. BROWN. That is the power of accepting.

Mr. WHITNEY. To make them acceptable.

Mr. BROWN. It says [reading]:

> In the above paragraph the Board desires to make it clear that a national bank cannot lawfully enter into a contract obligating it at maturity of any specific draft to accept a new draft * * *

Sufficient comment on that letter I believe is made by a letter of August 2 from Mr. Warburg to Governor Hamlin, in which he says [reading from "Exhibit No. 2428"]:

> Thank you for sending me the copy of your letter to Governor Strong. I suppose you were joking when you wrote that "you think" it covers the suggestions made by me at the conference in New York. Indeed it does not. It expresses just the contrary, and I am sorry to have to express my emphatic dissent.

He says further along [reading]:

> The doctrine propounded in this paragraph——

that I just read——

> is just the reverse of Mr. Cotton's opinion and of what we agreed upon in New York when four members were present.

He goes on further to state that there is nothing in the law to prevent the agreement on the part of the bank to guarantee the renewal of the acceptances; that the sole point is the question of forcing a holder to renew.

I wish to point out at this point that up to August 8 there is nothing in the record that shows that Mr. Warburg was in any way opposed to these credits.

Mr. Whitney. That letter was August 8?

Mr. Brown. August 2; excuse me.

(The document referred to was marked "Exhibit No. 2428", and is included in the appendix on p. 8410.)

Mr. Brown. I wish to offer, Mr. Chairman, for the record, a letter from Paul M. Warburg to the Federal Reserve Board, date August 8, 1915.

(The document referred to was marked "Exhibit No. 2429", and is included in the appendix on p. 8411.)

Mr. Brown. In that letter he states in part as follows [reading]:

> There are two questions involved: The one is the general question of the power of a member bank to enter into a contract obligation to renew an acceptance credit even for a longer period than 6 months. That is plainly a question of interpretation of law, one upon which there can be hardly any doubt, one upon which counsel has now given an opinion, satisfactory, as I understand, to all members of the Board, and certainly to a majority, and all the Board is about to do in this respect, is to adopt its counsel's opinion [including Mr. Cotton].
>
> The second question involved is the particular application of the ruling to the so-called "Brown credit." Concerning this, I understand, as Harrison states, that you, Dr. Miller, have some apprehension lest a revolving credit might in substance amount to a loan granted to a foreign government.

The letter further states [reading]:

> It was furthermore stated to Mr. Strong that no government must appear as a party to the contract or guarantor, but that the credit was to be given to private concerns. (Finally Browns had assured Mr. Strong that no war materials were to be financed by this credit arrangement.) If the restrictions as here stipulated are adhered to there cannot be any fear that the credit should amount to "a permanent foreign-government loan."

Mr. Lamont. Of course, Mr. Brown, all these internal discussions in the Federal Reserve Board have to do with the Federal Reserve Board and not with us.

Mr. Brown. Absolutely.

Mr. Lamont. We are sitting here as spectators, interested in all you have to say, but there are four members of the Federal Reserve Board at that time still living.

Mr. Brown. The only point is, as I believe the record has already shown, that J. P. Morgan & Co. were interested in setting the wheels in motion, may we say, to have acceptances made available for belligerent financing.

Mr. Lamont. We wanted to be sure that we were not derelict, and you were not expecting any remarks from us.

Mr. Brown. I am trying to direct my remarks to the Chair as much as possible.

Mr. Morgan. I would like to call attention to the fact that we had nothing to do with recommending a suspension of the rules of the Federal Reserve Board in regard to it.

Mr. Brown. Absolutely, Mr. Morgan.

Mr. Morgan. Thank you.

Mr. Raushenbush. Mr. Brown, may we not take it, in answer to the question which the witnesses gave, in response to the question which I asked you and you presented to the witnesses, that if these regulations had not been changed, then something over $100,000,000 would not have been floated here of these acceptances? Do we understand that correctly?

Mr. Brown. I think that is the consensus of what the record shows.

Mr. Whitney. They would have changed the terms of these credits. You must remember, Mr. Raushenbush, that Mr. Brown said we had nothing to do with any commercial credits except——

Mr. Brown. I did not say that.

Mr. Whitney. We did not handle any.

Mr. Brown. You did not handle any.

Mr. Whitney. They might have changed the regulations that come under the regulations of the Federal Reserve Board.

Mr. Raushenbush. Did you participate in any?

Mr. Whitney. We did participate in some but did not handle any.

Mr. Raushenbush. Then your effort in the matter was to secure as much as possible?

Mr. Whitney. We were always interested in providing any legitimate way.

Mr. Raushenbush. Mr. Morgan's cables and everybody's shows it was considered the bankers' job, regardless of whether your name was Morgan or Smith?

Mr. Whitney. Yes.

Mr. Raushenbush. That was one of your functions. Here was something which would and did oppose it. We would have 135 millions of rediscounts, and the evidence which was given in answer to the question was—I think your answer was different from Mr. Brown's. You or Mr. Morgan said that it would have stopped that amount of financing. Mr. Brown said, if I gathered it correctly, that it simply would have been stuck in the hands of the banks and left them unliquid to that extent.

Mr. Whitney. I think what we said, or we certainly meant to say, was that it would have necessitated a change in the terms of credit, and would not have necessarily stopped it, but if it stopped it, it was a matter of 100 million dollars.

Mr. Raushenbush. If it got out of the rediscount market, then it would have gone into the investment market and would be a drag on that, would it not?

Mr. Whitney. You cannot tell what might have happened, if it had not happened the way it did.

Mr. Raushenbush. Perhaps I misunderstood. You were not denying an interest in this whole thing?

Mr. Whitney. No.

Senator **Barbour**. It is the difference between interest and responsibility.

Mr. **Brown**. That is what my statement was, in connection with the responsibility.

I offer at this point, Mr. Chairman, a memorandum, undated, from the Federal Reserve Bank in New York, reading in part as follows [reading]:

> At various conferences with the Federal Reserve Board,, and particularly with Mr. Warburg, it has been informally understood that, while the Board does not care to make any formal ruling, the transaction described in the attached letter of Brown Bros. & Co., dated July 10, would not meet with objection on the part of the Federal Reserve Board.

Mr. Chairman, I wish to call your attention to the fact that Brown Bros.' letter of July 10, already in the record, is one which does not say anything about the guaranty of the Bank of France.

Mr. **Whitney**. That is not an aid to government, of course.

Mr. **Brown**. Mr. Whitney, we could sit down and discuss very long and very exhaustively, could we not, as to whether the Bank of France is a part of the Government, or the Bank of England a part of the English Government. Technically, no, but actually yes. Is not that so?

Senator **Barbour**. I do not think we want to get into matters of opinion on those things. How much more of this material have you got for the record, Mr. Brown?

Mr. **Brown**. It will take considerable time.

(The letter referred to was marked "Exhibit No. 2430", and is included in the appendix on p. 8412.)

Mr. **Brown**. I offer a letter for the record from Mr. Hamlin to Mr. McAdoo, of August 6, 1917, in which a quotation is made of the opinion of Mr. Miller of the Board. It says [reading]:

> He (Mr. Miller) bases his opposition on the ground that the ultimate security for the acceptors will probably be some form of Government notes, which may not be paid at maturity and which may have to be extended until they approach a long-term obligation.

(The document referred to was marked "Exhibit No. 2431", and is included in the appendix on p. 8412.)

Mr. **Brown**. That is in fact what happened, is it not, Mr. Lamont?

Mr. **Lamont**. I apologize, Mr. Brown. I was reading the Woodrow Wilson letter.

Mr. **Brown**. I beg your pardon. This is quoting Mr. Miller's opinion in regard to all these transactions, which were objectionable, which you have stated you had an interest in, although no responsibility. It reads [reading]:

> He bases his opposition on the ground that the ultimate security for the acceptors will probably be some form of Government notes, which may not be paid at maturity and which may have to be extended until they approach a long-term obligation.

Now, let us put the question this way: If the United States had not entered the war, Mr. Miller's opinion would have been correct, would it not?

Mr. **Lamont**. George, can you answer that? Did you follow that through, Mr. Morgan?

Mr. **Morgan**. I understood you to say that the ultimate security, as I understood it, rested on the good faith of the French Government securities, or the Bank of France, rather, and if the Bank of France got people to take a long-time obligation, then, when that obligation came through, it would still be liable for it.

Mr. **Brown**. But these were not supposed to be renewed, were they? They were short-time, liquid credits for the discount market.

Mr. **Morgan**. In some way or other they have got to accumulate exchange over here to pay them, do they not?

Mr. **Brown**. Yes. Do you recall that they were paid, Mr. Morgan?

Mr. **Morgan**. I do not.

Mr. **Whitney**. They were paid.

Mr. **Brown**. By Treasury advances.

Mr. **Whitney**. Were they? Whom?

Mr. **Brown**. The French Government.

Mr. **Whitney**. What Treasury?

Mr. **Brown**. The American Treasury.

Mr. **Whitney**. These matured in 1916, did they not?

Mr. **Brown**. Not these particular ones, the renewals. We will get to that later.

Mr. **Raushenbush**. Now you have mentioned it, Mr. Brown, how many of these acceptances were paid out of the United States Treasury?

Mr. **Brown**. From a rough memory of it, about one hundred and twenty million, Mr. Raushenbush.

Mr. **Whitney**. Excluding the Russians?

Mr. **Brown**. Excluding the Russians.

Mr. **Whitney**. The only ones with which we had anything directly to do.

Mr. **Brown**. That includes three Bonbrights, the second Brown, and the Guaranty-Bankers.

Mr. **Whitney**. So-called industrials.

Mr. **Raushenbush**. Do we get the story correctly, then, that the Federal Reserve regulations were changed to allow the rediscount of a kind of paper that was called acceptances, but which were not really acceptances because they had government securities behind them, and then after that regulation was changed to allow $135,000,000 worth of financing, the United States Treasury had to bail out the people who held them to the extent of $120,000,000?

Mr. **Brown**. That is the story as the documents revealed, Mr. Raushenbush. They are not all introduced. I think we could bring up later the documents substantiating that statement.

Mr. **Raushenbush**. I am interested in one more point, which I do not know whether you will bring out, but as you have been going through these, these things all revealed the same thing, that there were a lot of things about which the Federal Reserve Board were not informed, and there were certain definite omissions of fact.

Mr. **Brown**. I think the record shows that.

Mr. **Raushenbush**. All right.

Mr. **Brown**. I have offered the letter of August 6, 1915, for the record.

The last memorandum preceding that, dated July the 16th, was attached, which is in the record, and the various memoranda and the guarantee of the Bank of France. There are further letters which indicate the Board was very much concerned when it learned that was a credit guaranteed by the Bank of France. I have been showing that the Board was not really opposed to this credit in the beginning, but it was rather uncertain, and that Mr. Warburg particularly was not concerned, and later on when the nature of the credit became clear to the Board, that it was very seriously opposed by certain members.

Mr. RAUSHENBUSH. Do you have any documents showing that at the time the Board let these regulations go through to allow this financing, that it did not know certain essential features concerning the acceptance?

Mr. BROWN. That matter was long in dispute, Mr. Raushenbush, between the Board and Governor Strong, Governor Strong insisting that the Board knew there had been guaranties of discounts.

Mr. RAUSHENBUSH. Do you have documents to back that up?

Mr. BROWN. That I believe comes in on another occasion, but there is nothing in the documents so far offered, or which I have here, except the contract itself, which indicates that the Board was in any way informed that there was a guarantee of discount attached to this arrangement, and that that became a very serious question later, because in the view of the Board, the banks not only guaranteed to accept these acceptances but also guaranteed to discount them, and that that in effect made them a definite loan, because it meant as to the money rates that the borrowers had their money at a fixed rate. There was no possibility of putting a penalty on them at any time the bank wanted to liquidate.

If money gets tight, the banks can unload, and the rate of the borrower goes up in normal times, but where there is a guarantee of discount as well as acceptance, the rate is fixed, no matter where the money market goes.

Mr. MORGAN. Excuse me. The borrower sells the bill or sells the acceptance to someone, the bank, or to the discount market, or whatever it is going to be, and for that he takes a certain discount. If there is any change in the rate, it is in the change in the value of the bill in the hands of the holder, or if you have a fixed rate for renewal, you are quite right. I did not realize that that was undertaken. I do not agree with that as a good policy.

Mr. RAUSHENBUSH. Mr. Brown, one more question. Do you have any documents or anything showing that the Board changed its regulations before it was informed as to the full effect of this contract which changed the acceptance into a sort of guaranty?

Mr. BROWN. No; I do not gather that that is the case, Mr. Raushenbush. I gather that the bitter fight indicated in the documents in the record, going on in the Federal Reserve Board, was as a result of the discovery of the effects of this contract.

Mr. RAUSHENBUSH. Can you not introduce the rest of the documents with a brief summary of what they show?

Mr. LAMONT. You say, however, Mr. Brown, as a matter of interest, that the officials of the Federal Reserve Bank of New York always claimed that these people had given all the information?

Mr. BROWN. That is true.

Senator BARBOUR. None of these things directly involve the witnesses.

Mr. BROWN. This is for the record, as we stated in the beginning.

Senator BARBOUR. If it be agreeable to the members of the committee present, I see no reason why these documents should not be introduced en bloc, and any explanation given by Mr. Brown of what they are that may be appropriate.[1] It is understood that the witnesses have no responsibility for this at all. Is there any objection to that on the part of the witnesses?

Mr. **Whitney**. We are out of it.

Senator **Clark**. I understand these documents do not concern Morgan & Co.?

Mr. **Brown**. No, sir. The only connection, as I stated, Mr. Chairman, was that we have seen that J. P. Morgan & Co. were interested in having the Federal Reserve banks open to these acceptances.

Senator **Clark**. I understand, but I merely asked the question because, if they concern Morgan & Co., I was going to ask they be given an opportunity to pass on them.

Mr. **Brown**. I suggest that the balance of the documents be entered in the record and appropriate numbers given to each.

Senator **Barbour**. That is allowed, unless there is further question on the part of anyone else.

Mr. **Wardwell**. It does not refer to us?

Mr. **Brown**. There are no further Morgan documents there.

Mr. **Lamont**. They do not refer to us?

Mr. **Brown**. No.

(The documents referred to were marked "Exhibits Nos. 2432 to 2451", both inclusive, and are included in the appendix on pp. 8413 to 8427.)

Senator **Barbour**. If there is nothing further now, the committee will stand in recess until 10 o'clock tomorrow morning.

(Thereupon, at 4:45 p. m., the committee recessed until 10 a. m. of the following day, Tuesday, Jan. 14, 1936.)

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[1] See appendix, p. 8413, for explanatory note.

INVESTIGATION OF MUNITIONS INDUSTRY

TUESDAY, JANUARY 14, 1936

UNITED STATES SENATE,
SPECIAL COMMITTEE TO INVESTIGATE
THE MUNITIONS INDUSTRY,
Washington, D. C.

The hearing was resumed at 10 a. m., in the Caucus Room, Senate Office Building, pursuant to adjournment, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary, and Lawrence Brown, financial assistant to Committee, and Robert Wohlforth, assistant to the secretary.

TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, AND GEORGE WHITNEY—Resumed

The **CHAIRMAN**. The Committee will be in order.

Mr. Brown, you have a line possibly in view that you may pursue this morning.

Mr. **BROWN**. I would like to offer for the record a "Summary of special loan to Morgan, Grenfell & Co. client, February 20, 1915, to December 18, 1915."

This bears on that exchange situation in the Anglo-French loan, which has been held out so as to be sure that your accountants and ours were in thorough agreement on the figures. Since that has been checked between us, I now offer it for the record.

(The document referred to was marked "Exhibit No. 2452" and is included in the appendix facing p. 8427.)

Mr. **WHITNEY**. This is the summer of 1915, the one that was paid off.

Mr. **BROWN**. Yes, sir.

FEDERAL RESERVE-BANK OF ENGLAND NEGOTIATIONS[1]

Mr. **BROWN**. Mr. Chairman, this morning we take up the negotiations between the Federal Reserve Bank of New York and the Bank of England in regard to appointing the latter as correspondent to the former during the spring and summer of 1916.

The question of neutrality and exchange support was therein involved.

The firm of J. P. Morgan & Co., did not play a very large role in this operation, and insofar as the firm is not involved, there are no questions to the witnesses.

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[1] See also "Exhibits Nos. 3125 through 3160 and 3218", Hearings, Part XXX; "Exhibits Nos. 3864 through 3882 and 3898", Hearings, Part XXXI.

I would like to offer the documents more or less en bloc, if there is no objection to procedure.

Mr. **Lamont**. Of what do the documents consist?

Mr. **Brown**. They are mostly letters from the files of the Federal Reserve Bank of New York and some from the Federal Reserve Board.

I might point out at this point the negotiations began in the winter of 1916 at about the time when the pressure on the exchange again forced the reopening of the demand loan to the Bank of England, which was used to support sterling in New York.

The object of this establishment was set forth in a memorandum of a later date, which refers back, however, to the earlier negotiations, and I shall offer it in the record.

It is August 29, 1916, by J. F. Curtis, counsel of the New York bank. It sets forth the nature of this transaction.

(The document referred to was marked " Exhibit No. 2453 " and is included in the appendix on p. 8428.)

Mr. **Whitney**. Excuse me, Mr. Chairman, but, Mr. Brown, do you think that is an adequate explanation of what the demand loan was renewed for in the winter of 1916? It was for very many other purposes than exchange. It was for making transfers in the commercial agency, and many other reasons.

Mr. **Brown**. The Bank of England demand loan no. 1 was apparently for the purpose of exchange.

Mr. **Whitney**. Yes; but not no. 2.

Mr. **Brown**. I was trying to simplify it by leaving that out; to let the record be clear on that, there was another loan also for other purposes.

According to this memorandum which I have offered for the record the purpose of the negotiation between the Bank of England and the Federal Reserve Bank of New York was, first, to stabilize exchange.

The mechanics of the transaction were:

First, the establishment of an account with the Bank of England.

Second, to use the Bank of England as an agent for the Reserve Bank of New York to buy drafts and bills of exchange in the London market for account of the Federal Reserve Bank.

This description is put in [reading from "Exhibit No. 2453"]:

> All of the operations above described will be undertaken, if at all, for the purpose of regulating the exchange between England and this country, which regulation will have as its object the assistance of the commerce of the United States.

According to this memorandum, at the outset the question of neutrality was involved. The memorandum reads, on that subject, as follows:

> Are the actions contemplated by the Federal Reserve Bank of New York, under the plan of operations with the Bank of England, unneutral in character, and (2) if they are unneutral, is the Government of the United States involved in such a way as to render the actions of the bank improper?

The memorandum states further:

> As for the Bank of England, it is a private corporation, acting under a charter granted by Parliament, the corporation not being owned in any respect by the Government, etc.

I want to ask the witnesses, just as a matter of opinion, do you consider the Bank of England a private corporation?

Mr. MORGAN. Do I?

Mr. BROWN. Yes.

Mr. MORGAN. Yes. It is a private corporation, but, of course, it acts for the Government many times. It is in close touch with the Government at all times, and they work together. It is privately owned entirely.

Mr. BROWN. It is privately owned, but, as a matter of actual fact, it is a Government bank in effect, is it not?

Mr. MORGAN. It was established originally as a Government bank, yes; and it has a right to issue notes, which is given it by the Government.

Mr. BROWN. Until the war the sole paper money of Great Britain was the Bank of England notes?

Mr. MORGAN. They are now.

Mr. BROWN. Have they withdrawn the Treasury notes?

Mr. MORGAN. There were Treasury 1-pound notes during the first part of the war, yes, and for some years after the war.

Mr. BROWN. But today again the only currency of Great Britain is the Bank of England notes?

Mr. MORGAN. Bank of England notes.

Mr. LAMONT. But the Government has no stock in it whatsoever.

Mr. MORGAN. It has no ownership at all. It does not appoint directors or anything else.

Mr. BROWN. Have you ever known of a conflict between the Bank of England and the British Government?

Mr. MORGAN. I personally do not know of any.

Mr. BROWN. The second question which Mr. Curtis raises in regard to neutrality is the question whether the Federal Reserve Banks are Government banks or not, or quasi-Government banks.

I do not believe that question has ever been settled. It still seems to be open.

I offer for the record a letter from Benjamin Strong to Mr. Treman on March 22, 1917.

(The document referred to was marked "Exhibit No. 2454" and is included in the appendix on p. 8429.)

Mr. BROWN. In this he is pretty emphatic about his contention that the Bank of England is a Government bank.

I offer for the record a letter from Benjamin Strong to Morgan, Harjes & Co., dated February 13, 1916.

(The document referred to was marked "Exhibit No. 2455" and is included in the appendix on p. 8430.)

Mr. BROWN. You crossed on the *Rotterdam* with Mr. Strong on that trip, did you not, Mr. Morgan?

Mr. MORGAN. I went on the *Rotterdam* at that time. I do not remember whether Ben Strong was on board or not.

Mr. BROWN. I think it will come out in the further documents that he was.

Mr. MORGAN. Very probably.

Mr. BROWN. I will read the opening line of this [reading from "Exhibit No. 2455"]:

> Here we are at last, after an uneventful but most enjoyable trip across on the *Rotterdam*. We were held up for examination of passports, etc., at Fal-

> mouth to a degree that was most impressive, and possibly under different conditions would have been exceedingly annoying. Frankly, although my trip is one of business, I am in a frame of mind to submit to almost any degree of annoyance, realizing now as never before how necessary it is that every interest must be laid aside which might interfere with the successful prosecution of this war.

You do not recall any conversations with Mr. Strong on that trip?

Mr. Morgan. I do not recall them especially; no.

Mr. Brown. Here it is in the lower paragraph. It said that you—

> came over on the boat with me, and I must say he is looking exceedingly well, is in excellent spirits, and stands the strain of their very busy organization with apparent ease.

I am glad to hear that.

Mr. Morgan. There does not appear to have been anything very remarkable in regard to the conversation that I ought to remember.

Mr. Brown. I now offer a letter dated May 1, 1916, from Frank L. Polk, that indicates that Governor Strong at that time was considered to occupy at least a semiofficial status, because the letter reads [reading]:

> I received your letter of the 28th ultimo and have directed that all diplomatic correspondence be sent you.

(The document referred to was marked "Exhibit No. 2456" and is included in the appendix on p. 8431.)

Mr. Brown. I offer for the record a group of letters from Mr. Strong to Mr. Jay, dated various dates, from March 8, 1916, in London. The part that is significant in the first letter is [reading from "Exhibit No. 2457"]:

> I had a long talk yesterday with Jack Morgan and Grenfell, and another visit this morning with Jack.

Apparently you were in pretty close touch with Mr. Strong in London at that time.

Mr. Morgan. Strong and I were very great friends. I knew him very well indeed. I saw him constantly when he was in London always; always tried to back up that connection between the Federal Reserve Bank and the Bank of England, which I thought was so important.

Mr. Brown. The other letters simply bear out that statement, Mr. Morgan, and there is no particular point in it except at the end of the letter of March 14, Governor Strong writes [reading from "Exhibit No. 2459"]:

> It will not be possible to make tentative banking arrangements with the joint-stock banks until after discussions are completed with the Bank of England. I wish, on receipt of this letter, you would drop in and see Jack Morgan. He will give you, personally, some information that I am sure you will regard as of value and will indicate my desire to wait here until the work is done. He and his partner, Grenfell, have been most helpful.

(The documents referred to were marked "Exhibits Nos. 2457, 2458, and 2459", respectively, and are included in the appendix on pp. 8431 to 8433.)

Mr. Brown. In the course of those negotiations, Mr. Morgan, did the question ever come up whether this was a neutral transaction to undertake in the spring of 1916?

Mr. Morgan. No; I do not think it ever did.

Mr. **Brown**. You do not ever recall that that question was mentioned at all?

Mr. **Morgan**. No; I do not recall it.

Mr. **Brown**. In another letter, dated March 22, 1916, it says [reading]:

> We—

meaning Mr. Strong and someone else—

> spent about an hour discussing our plans, with which Jack Morgan is fully familiar, and with which Lord Cunliffe is now in accord.

(The document referred to was marked "Exhibit No. 2460" and is included in the appendix on p. 8434.)

Mr. **Brown**. I wish to enter in the record an excerpt from the New York Times, dated February 18, 1916, reading as follows [reading]:

> Denial was made today by the Federal Reserve Board of the published statement that Benjamin Strong, Jr., Governor of the Federal Reserve Bank of New York District, had gone to England on a mission for the Board.
>
> The idea that he would take steps to arrange for the establishment of agencies of the Federal Reserve Bank System in Europe was denied.
>
> The Reserve Board has power to establish such agencies, but it is the policy of the Board, it was stated, to defer action on this matter until after the war when conditions have become normal.

(The document referred to was marked "Exhibit No. 2461" and is included in the appendix on p. 8435.)

Mr. **Brown**. Do you recall, Mr. Morgan, in conversation with Mr. Strong at that time, any mention of a conference with Lord Kitchener and W. Cameron Forbes?

Mr. **Morgan**. No.

Mr. **Brown**. Do you recall his ever mentioning it to you afterward?

Mr. **Morgan**. I do not remember any such conversation at this moment.

Mr. **Brown**. I wish to offer for the record, Mr. Chairman, a newspaper extract from the New York Evening Mail, dated September 20, 1916, of which the relevant part is this:

It points out that a conference was held between W. Cameron Forbes, formerly Governor of the Philippines, and Benjamin Strong, with Lord Kitchener, who was then, I believe, Secretary of State or War, was he not?

Mr. **Morgan**. He was Secretary of War; yes.

(The document referred to was marked "Exhibit No. 2462", and is included in the appendix on p. 8435.)

Mr. **Brown** (reading):

> It was because of this conviction that Lord Kitchener arranged the meeting, to urge Governor Forbes and Mr. Strong to throw the weight of their influence in this country on the side of the Allies.
>
> Governor Forbes and Mr. Strong were expressly invited to confer with Kitchener as quasi official members of the American Government. And Governor Forbes held the diners spellbound.

And so forth.

It goes on [reading]:

> The breaking off of diplomatic relations with Germany was the immediate step he pleaded for.

Mr. **Morgan**. It did not imply that I was present at that conversation, did it?

Mr. **Brown**. Oh, no. The only thing was that noticing from this letter how intimate you had been with Governor Strong's negotiations at that time, whether he had ever mentioned that to you, Mr. Morgan.

Mr. **Morgan**. I do not recall it.

Mr. **Brown**. I offer for the record a letter from Benjamin Strong to Pierre Jay, dated September 29, 1916, in which he is discussing the newspaper extract which was read into the record.

(The document referred to was marked "Exhibit No. 2463", and is included in the appendix on p. 8436.)

Mr. **Brown**. In this he says [reading]:

> The interview with Kitchener was the result of a long talk that Kitchener had with Fred Wolcott who was over there representing the Rockefeller Foundation.

In no way does he deny the essential accuracy of the newspaper account.

I offer for the record, Mr. Chairman, a large group of documents, none of which concern the witnesses. They merely make clear the nature of the negotiations from March up into August.

The only point that needs comment is that as early as March 23, 1916, in the telegram from Benjamin Strong, the New York bank was suggesting changes in the memorandum between the two banks.

It says [reading from "Exhibit No. 2464"]:

> Omit references in opening sentence and in paragraph 12 to conclusion of war as we propose earlier start.

Apparently as early as March 1916 the theory that this should be deferred until after the war had been dropped, at least on the part of Governor Strong.

I am offering this group for the record, if the witnesses have no objection.

There is no mention in any case in here of J. P. Morgan & Co., or you personally, Mr. Morgan.

Mr. **Morgan**. I have no reason to object at all.

(The documents referred to were marked respectively, "Exhibits Nos. 2464 to 2476", inclusive, and are included in the appendix on pp. 8436 to 8445.)

Mr. **Brown**. Then I offer for the record a letter from Benjamin Strong to Mr. J. P. Morgan, dated August 31, 1916.

(The document referred to was marked "Exhibit No. 2477", and is included in the appendix on p. 8446.)

Mr. **Brown** (reading):

> It will soon be 5 months since I was in London discussing the preliminary outline of our proposed arrangements with the Bank of England, and have no doubt that Lord Cunliffe and his associates may now be wondering whether there is any possibility of a final conclusion of the matter, particularly, as they know that I am ill in Colorado. On that account, I am writing to advise you of the status of the matter in case inquiry should be made of you.

Why, Mr. Morgan, should inquiry be made to you? You were not an officer or director of the Reserve Bank of New York, were you?

Mr. **Morgan**. No. At that time I was still a member of the Advisory Council, I think.

Mr. **Brown**. That was of the Reserve Board?

Mr. **Morgan**. Of the Reserve Board; yes.

Mr. **Brown**. It had no organic connection with the Reserve Bank, that is?

Mr. **Morgan**. No; none at all, except that I was extremely friendly with Ben Strong. He knew quite well that I was not cognizant of all that had gone between him and Cunliffe and the Bank of England, and he thought that they might ask me what was doing, therefore he would post me. That was the whole purpose of that letter, as I make it out. I have not heard the letter yet. I have forgotten it.

Mr. **Brown** (continuing reading):

> On my return from Europe, the following things had to be done before it was possible to make any move towards starting the arrangement in operation:

I will brief these, if possible:

First, the Federal Reserve Act had to be amended in certain details.

A second amendment was necessary.

Third, it was necessary to obtain the approval of the directors of the Federal Reserve Bank of New York.

Fourth, it was necessary to obtain the consent of the Federal Reserve Board.

Fifth, it was probably necessary to get some sort of approval or disclaimer of interest from the State Department.

Do you recall that, Mr. Morgan?

Mr. **Morgan**. No. That was part of what he was telling me about his problem.

Mr. **Brown**. Yes, but I wondered if you could elaborate that point.

Mr. **Morgan**. I do not think it requires elaboration; there is no elaboration I could give to it, sir.

Mr. **Brown**. It was, finally, necessary to formulate some plan by which all 12 of the Reserve banks could operate together under the direction of the Federal Reserve Bank of New York.

Then Governor Strong reports to you that "The status of the above matters is at present as follows:

"I am just advised" that one of the amendments is in the Conference Committee of the House.

The second amendment is in.

The directors of the Federal Reserve Bank of New York have approved the plan.

The Federal Reserve Board has unanimously consented to the plan,' and, as we will see from the preceding documents entered, subject to the approval of the State Department.

> No action has as yet been taken by the State Department.

I read the rest of the letter, in which it appears that Governor Strong is discussing the role of this arrangement in the war financing at the time [reading from "Exhibit No. 2477"]:

> As nearly as I can gather, the present import point of gold is somewhere between $4.76 and $4.77, and I am going to give you my best guess as to the present exchange situation, asking you if you will correct it so far as you feel able and willing to do so and give me your own views as to what may transpire this Fall.
>
> I surmise that France now has a total credit in New York unused, created by the recent loan of $100,000,000, and by various commercial credits of which

I have been advised, aggregating possibly $100,000,000 in all. I also surmise that the proceeds of the sale of the English notes, together with the unused $50,000,000 bank credit gives England a total drawing account in New York today of $300,000,000 not counting some of the gold recently imported and which, I judge, has not yet found its way into bank reserves. I would also suppose that England has, unused but available, American and other securities which can be converted and used as collateral in this market, amounting to anywhere from $100,000,000 to $200,000,000. I would, also, assume that Russia had considerable credits here as to the amount of which I would not hazard a guess. In all, let us say that there is $500,000,000 available, possibly more, for us to meet the fall demands. This is, of course, a magnificent preparation but still I have some doubt whether it will be sufficient to meet the enormous demands which will certainly be made upon us during the present period of the offensive movement, and possibly, in preparing for a more extensive movement next year, if, as I surmise, these three nations are to continue to purchase our raw materials, etc., in anything like the volume which the Government reports indicate. It also seems likely that there will be a large movement of cotton this fall and at pretty substantial prices. In view of the above, which I admit is largely supposition, I have not modified my feeling that the interests of our banks and our exporters may require that the arrangements with the Bank of England be put into operation this fall.

The CHAIRMAN. This is a letter to Mr. Morgan from Mr. Strong?

Mr. BROWN. Yes.

The CHAIRMAN. That we may have a better understanding, Mr. Brown, let me ask what the general purport of these exhibits is. Are you merely undertaking to reveal that the policies of the Federal Reserve System were being shaped and reshaped at this time to accommodate more ready financing of Allied purchases in the United States?

Mr. BROWN. I take the documents to have that significance, Mr. Chairman. This is a year later than the financial conditions that we have been discussing heretofore.

A year before, the question was, "A little credit because American exports is in danger." Here is a question of a very serious problem which has now accumulated. The Governor outlines totals; here is $500,000,000 available right on his rough estimate and, if that is not enough for the enormous demands. The war trade is requiring a constantly increasing financing, a constantly increasing strain.

I think the point also is relevant that the Federal Reserve Bank of New York, one would judge from these letters, is a long way from the discretion which was illustrated by Governor Strong's letter to Sir Edward Holden, which was put in the record earlier in the hearing.

There is no consideration here, apparently, that the Federal Reserve Bank has a duty to neutrality to support. Its duty is to support this ever-growing trade, "The enormous demands which will certainly be made upon us during the present period of the offensive movement."

Mr. LAMONT. Would it be fair to repeat the suggestion that Mr. Morgan made yesterday, namely, that the Federal Reserve System having just been organized and that they were feeling their way out toward the formulation of regulations that would affect every part of trade, that would bear upon every part of trade, both domestic and foreign?

Mr. BROWN. I think that is entirely fair, Mr. Lamont. I think it is equally fair to point out the goal toward which the regulations were going.

Mr. LAMONT. Yes; as to the handling to a considerable extent of our export trade, that export trade, of course, being not to the Allies alone but all over the world.

Mr. BROWN. This letter from which I have just been reading discusses nothing but trade to the Allies.

Mr. LAMONT. Yes.

Mr. WHITNEY. Is it not also significant, Mr. Brown, to point out that Governor Strong was $119,000,000 wrong in his calculations, because, as you know, $119,000,000 of that $250,000,000 September 1 issue was used to pay off certain obligations that they had; so it did not leave by that amount that available for the British.

Mr. BROWN. I think that it is entirely proper to point out, Mr. Whitney, and I think we can draw even another conclusion from that. I think we can draw the conclusion that even the Governor of the Federal Reserve Bank of New York was not aware of the enormous strain that was being put on the New York money market.

Mr. WHITNEY. That letter, as you read it, made an inquiry, if you also remember—I do not think you stated it. That letter was written by Governor Strong when he was sick out West in Colorado, I think, or Arizona.

Mr. BROWN. That is correct.

Mr. WHITNEY. He was trying to be posted as to what the status was. That is no implication that the Federal Reserve bank did not know about it.

Mr. BROWN. He was in constant touch with his own office at all times.

Mr. WHITNEY. I suppose so.

Mr. BROWN. He remained governor of the Federal Reserve bank.

Mr WHITNEY. The second point is, if my recollection is correct, there were no so-called commercial credits subsequent to that date, were there?

Mr. BROWN. I believe there were. There were some more Bonbright credits.

Mr. WHITNEY. In October there was one; excuse me.

Mr. BROWN. Then there was the big $50,000,000.

Mr. WHITNEY. That is the one.

Mr. BROWN. There was another $25,000,000, of Bonbright, in January of 1917.

I offer for the record Mr. Morgan's answer to Mr. Strong, dated September 7, 1916, in which Mr. Morgan sets Mr. Strong right, as Mr. Whitney points out, where he was in error.

(The document referred to was marked "Exhibit No. 2478" and is included in the appendix on p. 8447.)

Mr. BROWN. I will read only this line:

> The requirements for raw materials show no signs of falling off, and they evidently expect the war to go on for another year.

Mr. Morgan, at that time, September to December 1916, was a period of a great deal of peace talk, was it not? There were peace offers and peace negotiations of various kinds?

Mr. MORGAN. I do not know that it ever took any very formal shape.

Mr. LAMONT. Just a little later in the autumn, was it not?

Mr. WHITNEY. He said December.

Mr. **Brown**. This is dated September.

Mr. **Lamont**. I think after the election the peace talk became more rife, Mr. Brown.

Mr. **Morgan**. I thought you said December.

Mr. **Brown**. No; September.

Mr. **Morgan**. No; I do not recall it.

Mr. **Brown**. Then, I offer for the record Governor Strong's reply to Mr. Morgan, dated September 12, 1916.

(The document referred to was marked "Exhibit No. 2479" and is included in the appendix on p. 8448.)

Mr. **Brown**. The only significant paragraph is the following:

> Of course, whatever operations we——

That is, the Reserve Bank of New York—

> could undertake under the terms of the proposed account would be very small in total compared to the total requirements, and it would be a very flexible account and could be made one of the means of stabilizing exchange, rather than specifically a drawing credit, and, after all, the proposed account is to create machinery for steadying exchange rates, having an eye to conditions after the war is over, just as much, if not more, than present conditions. It is all in the interest of our exporters, and some day, I guess, that will be fully realized.

Mr. Morgan, at that time one of the most serious strains on the British Government was the support of sterling, was it not?

Mr. **Morgan**. Yes; that was one of the most serious problems they had, of course.

Mr. **Brown**. So that anything of this nature, even though, as Governor Strong says, the amount is small, anything that would stabilize exchange, would be a very great aid to the British financing in America?

Mr. **Morgan**. Yes; and the larger the greater the aid—and to American exports.

Mr. **Brown**. That, of course, is synonymous, according to the record.

Mr. Chairman, I wish to offer for the record a group of letters of various dates for appropriate notation, which in no way concerns J. P. Morgan & Co. or Mr. Morgan personally. They merely cover the negotiations in the late summer of 1916, in which this negotiation is stalled in the Federal Reserve Board because, having been turned over to the State Department, the State Department declined to act until the election was out of the way.

Mr. **Raushenbush**. Mr. Chairman, may I ask a question?

The **Chairman**. Yes.

Mr. **Raushenbush**. I would like to ask a question of Mr. Brown: Is there any document there that shows why this matter, which was apparently turned over to the State Department, was held up until after the election?

Mr. **Brown**. I am just trying to find out.

Mr. **Raushenbush**. Let me ask another question: Was it turned over to the State Department because it involved neutrality?

Mr. **Brown**. Yes, Mr. Raushenbush; very definitely.

Mr. **Raushenbush**. What document shows that?

The **Chairman**. What was the general nature of that document?

Mr. Brown. In the letter already in the record[1] from Benjamin Strong to Mr. Treman, the Deputy Governor, dated August 31, Governor Strong says:

> The things to be urged before the State Department are, first, that the plan is developed for the protection of our foreign commerce and not for any unneutral purpose.

Letter from Pierre Jay to Governor Strong, of October 19, 1916, which is offered for the record.[2] That letter reads in part as follows:

> With regard to the Bank of England matter, I feel personally that it would be inadvisable to try to have Curtis see Polk or to do anything about it until after election. That is only two and a half weeks away. After that time I feel that the subject can probably be discussed on its merits and will be a welcome instead of as at present an unwelcome subject, and that our chances of success will be much greater if we have a little patience.

Another letter from Mr. Curtis to Governor Strong with respect to our foreign business, which states [reading]:[3]

> With respect to our foreign business, I agree with you that some pressure on the Department of State should be exerted, but I don't think there is really any use in attempting anything before election * * *

(The documents referred to were marked, respectively, "Exhibits Nos. 2480 to 2491", inclusive, and are included in the appendix on pp. 8449 to 8453.)

Mr. Brown. Enclosing the permission from the Reserve Board to undertake this arrangement. That letter reads in part as follows:[4]

> I don't altogether agree with you about the Board showing distrust of your intelligence and intentions. I think that they, in common with all Washington, merely had that preelection fear of "rocking the boat." Six weeks before election Harding predicted to me the exact action which Lansing actually took as soon as election was over.

It seems pretty clear, Mr. Morgan, that everyone was aware here of the neutrality aspect of this. It was never discussed with you in any way?

Mr. Morgan. I do not remember at all. I think not.

Mr. Brown. Did you think at the time that it was an entirely neutral transaction for the Reserve banks of the United States to lend money to the Bank of England during a war?

Mr. Morgan. Certainly; like any other bank.

Mr. Brown. Of course, it is unneutral for a government to lend money to a belligerent, is it not?

Mr. Morgan. Is it? I did not know that.

Mr. Whitney. It is what?

Mr. Brown. It is unneutral for a neutral government to loan money to a belligerent, is it not?

Mr. Morgan. It may be. I do not know what the law is.

Mr. Brown. I believe it is.

The Chairman. It was so held by our State Department during the days of controversy over neutrality.

Mr. Morgan. You are not talking about a government loan now?

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[1] "Exhibit No. 2476", see appendix, p. 7445.
[2] "Exhibit No. 2485", see appendix, p. 8452.
[3] "Exhibit No. 2487", see appendix, p. 8452.
[4] "Exhibit No. 2490", see appendix, p. 8453.

Mr. Brown. I am talking about the loan from the Federal Reserve banks. The Federal Reserve banks occupy quasi-governmental status here, do they not?

Mr. Whitney. Is there any question of the Federal Reserve banks making loans?

Mr. Brown. The first exhibit[1] showed they were to maintain a deposit with the Bank of England, which is a loan.

Mr. Whitney. That is quite right; a deposit is a loan.

Mr. Lamont. Mr. Brown, of course, there had been relations between the commercial banks in America and the commercial banks in England and in the other countries of Europe for generations?

Mr. Brown. Certainly.

Mr. Lamont. Now, the Federal Reserve System was organized and the question very properly arose, it seems to me, whether there should be relations between the Federal Reserve, the chief bank, the largest bank of the Federal Reserve System, and the central banks of other countries. Is not that on the whole the question?

Mr. Brown. Does not that involve the question, Mr. Lamont, of whether the Federal Reserve banks are purely private banks—not in the legal sense but private banks in the sense that commercial banks are, and belong exclusively and are subject to the exclusive control of their stockholders—or whether the Federal Reserve banks occupy a position analogous to the Bank of England and the Bank of France?

Mr. Lamont. I think you can discuss that as long as you like. They are owned by the various member banks of the United States. They do act, and they were designed to act, in cooperation with our own Government.

Mr. Brown. Three of the nine directors of each bank are Government appointees, are they not?

Mr. Lamont. Certainly; three out of the nine.

Mr. Brown. And the Federal Reserve Board is entirely a Government body?

Mr. Lamont. Yes, sir.

Mr. Brown. And the bulk of the currency of the United States is Federal Reserve notes, is it not, guaranteed by the United States?

Mr. Lamont. I do not know all the laws, Mr. Brown, on that.

Mr. Morgan. Mr. Brown, in regard to that, I might say that always my idea and Mr. Strong's, in making a closer connection between the Federal Reserve Bank and the Bank of England, was that the Federal Reserve Bank was a newcomer to the central bank organizations of the world, and that in order to enable it to take its place, it wanted to have close touch with all the central banks everywhere, and the Bank of England was the chief of the central banks, and that is the one I wanted them to begin with.

Mr. Brown. If I might have an opinion on the subject, Mr. Morgan, I would entirely agree with you. The only question which occurs to my mind on that is the propriety of doing it at the time when Great Britain was a belligerent and the United States was neutral.

Mr. Morgan. At that time they were in touch with the State Department. If the State Department authorized it, it was all right.

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[1] See "Exhibit No. 2453", appendix, p. 8428.

Mr. **Brown**. I would also judge that the State Department's action in delaying a decision until after the election indicated, as the letter says, the preelection fear of "rocking the boat."

Mr. **Morgan**. About that, I do not think that is a matter on which I should concern myself at all. If they took the correct attitude and asked the State Department whether that would be permitted, and the State Department said "Yes", that was "Yes." I would not go further as to what the State Department's reason for making any decision was.

Mr. **Brown**. In the final conclusion of this, to show the connection of J. P. Morgan & Co. with this transaction, I offer for the record a telegram dated December 27, 1916.

Mr. **Morgan**. December 27, 1916?

Mr. **Brown**. Yes, sir; from E. C. Grenfell to J. P. Morgan, no. 28575.

Mr. **Whitney**. What date did you say, Mr. Brown?

Mr. **Brown**. December 27, 1916.

Mr. **Morgan**. To Grenfell; yes, sir.

Mr. **Brown**. That is offered for the record.

(The document referred to was marked "Exhibit No. 2492" and appears in full in the text.)

Mr. **Brown**. That cable reads as follows:

> 28575. For J. P. Morgan. Some prominence given in our newspapers today to announcement by Federal Reserve Bank of New York City.
>
> We presume this is a result of conversation we had with Ben Strong, Jr., year ago, and the announcement at this juncture shows friendly feeling. We should be glad of any comment you have to make. E. C. **Grenfell**.

Mr. **Brown**. Then, I offer for the record a telegram dated December 27, 1916, for E. C. Grenfell, from J. P. Morgan, no. 33815.

(The document referred to was marked "Exhibit No. 2493" and is included in the appendix on p. 8454.)

Mr. **Brown**. That telegram reads, in part, as follows:

> You will have seen that the Federal Reserve Board yesterday published the authority for the Federal Reserve Bank of New York to make an arrangement with the Bank of England. This is simply the formal statement of authority * * *.

I do not think the rest of the cable needs to be read. I offer it for the record.

Mr. **Morgan**. It is worth-while reading, is it not? [Examining cablegram.] I do not know whether it is.

Mr. **Brown**. I offer for the record a cable of December 28, 1916, to J. P. Morgan from Morgan in London, no. 28581.

(The document referred to was marked "Exhibit No. 2494" and is included in the appendix on p. 8455.)

Mr. **Brown**. I offer for the record a number of documents which show that this transaction, the first purpose of this arrangement, was to earmark gold in the Bank of England to the amount of $52,500,000 for account of the Federal Reserve Bank of New York in exchange for which or on account of which the Federal Reserve Bank of New York paid off the British bank credit of November 1915.

The subsequent story of how that gold was released from earmark will come up at another time.[1]

That is all.

(The documents referred to were marked "Exhibits Nos. 2495 to 2501", inclusive, and are included in the appendix on pp. 8455 to 8457.)

The CHAIRMAN. In continuation of the hearings, it is now essential that Senator Clark be present. He has been delayed for a few minutes, and for a short time the committee will be obliged to be in recess. As soon as he returns we shall proceed. The committee is in recess until called.

(Thereupon, at 10:45 a. m., a recess was taken, after which the proceedings were resumed as follows:)

The CHAIRMAN. Senator Clark is detained in the Finance Committee, where the bonus matter is pending, and it seems desirable that the committee recess at this time until 2 o'clock this afternoon.

(Thereupon, at 11:30 a. m., the committee took a recess until 2 o'clock p. m. of the same day.)

AFTER RECESS

(The hearing was resumed at 2 p. m.)

FURTHER TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, AND GEORGE WHITNEY

NEUTRALITY—DIPLOMATIC CORRESPONDENCE 1914–1917[2]

The CHAIRMAN. The Committee will be in order.

At this time, the Committee, under the leadership of Senator Clark, is to proceed upon an avenue that may seem to the witnesses to be somewhat removed from the study that has been under way the past week. However, the Committee feels that it will be quickly revealed to the witnesses and to others who may be interested, that this immediate study is one having to do in a decided way with our neutrality of other days, as it may indicate what will need be the case if we will avoid certain experiences of other times.

It is altogether probable that Senator Clark will not be directing questions to the witnesses this afternoon. Yet, I am sure, from what he has said, that he will expect the witnesses to interrupt, if there are things said or entered into the record which you may feel are requiring any enlargement or any explanation whatsoever.

But, except for that, you may, if you wish, understand yourselves to be excused during the afternoon. Yet, I am sure that you are going to find the study that will be laid out before you quite interesting, in light of the general interest in this larger subject.

All right, Senator Clark.

Senator CLARK. Mr. Chairman, it is my purpose to offer for the record this afternoon certain documents as exhibits, some of which have been heretofore published, and many of which have not, with simply enough explanatory matter to connect up.

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[1] Partly against sterling furnished the American Army and Navy. See "Exhibits Nos. 3879 to 3882", Hearings, Part XXXI.

[2] Discussed further in Hearings, Part XXVIII, p. 8487 et seq. See also "Exhibit No. 4115", Hearings, Part XXXII.

It would be my suggestion that I proceed along that line, and at the conclusion of that study I would be very glad to have any of the witnesses, or anybody else who desires, to express any opinion they desire to.

I believe time will be conserved by putting in these documents with as brief connection as may be.

The first thing I want to do, Mr. Chairman, is this: I am going to take the trouble to read it, although it is rather long, in view of the fact that Mr. Lamont, on behalf of J. P. Morgan & Co. put in a chronological table here having to do with our neutrality during the war; and the first thing I desire to do is to put in a chronological table which has been prepared by the Committee staff under the direction of the Committee, which represents the essential events of the war, from the standpoint of the Committee's study.

As I say, I am not going to take any more time than is necessary, but desire to read this in full:

TIME TABLE OF EVENTS PERTINENT TO THIS STUDY

(August 1914–May 1917)

August 6, 1914.—United States Government attempted to get belligerents to agree to apply provisions of Declaration of London in their naval warfare during the war in order to avoid difficulties which might arise as to relations between belligerents and neutrals.

August 10 and 13, 1914.—Germany and Austria-Hungary agree to abide by rules of Declaration of London provided other belligerents do likewise.

August 15, 1914.—Public circular issued by Department of State regarding neutrality which said in part, "This right to continue to trade with belligerents is upheld by the well-recognized principles of international law."

August 15, 1914.—Department of State announced loans to belligerent nations would be inconsistent with the true spirit of neutrality.

August 22, 1914.—Britain agreed to abide by the Declaration of London with a few modifications. These modifications left her free, virtually, to throttle commerce with Germany.

October 22, 1914.—United States finally gave up effort to get Britain to accept Declaration of London without modifications and decided to reserve its rights under the existing rules of international law.

October 23, 1914.—In a private conversation with Lansing, then Acting Secretary of State, Wilson made a distinction between loans and credits and told Lansing he could convey this information to the appropriate parties but as his own idea, not Wilson's. Lansing conveyed it to Willard Straight, of J. P. Morgan & Co., and R. L. Farnham, of National City Bank.

October 30, 1914.—National City Bank extended a credit of $10,000,000 to France for purchase of war materials.

November 3, 1914.—Britain gave "notice that the whole of the North Sea must be considered a military area", and warned all merchant ships of danger to them in that area unless they proceeded in strict accordance with Admiralty directions.

December 6, 1914.—Working arrangement between United States and Great Britain under negotiation, by which Britain agreed to permit exportation from Britain and her colonies to the United States of rubber, hides, jute, wool, plumbago, manganese, tungsten, etc., on the assurance that neither these nor any article manufactured from them would be sold to enemy countries or even to neutrals from whom Britain had not secured satisfactory guaranties against reexportation of such articles. These articles which Britain had embargoed were absolutely necessary to American manufacturers in order to fill their war orders. Resulting agreements were concluded early in 1915 with practical effect of subjecting the foreign trade of American manufacturers, who needed such raw materials, to British control.

December 7, 1914.—Senator Hitchcock introduced a resolution to prohibit exportation by private firms of munitions to belligerents.

December 14, 1914.—Department of State cabled Page that administration did not support Hitchcock resolution.

December 26, 1914.—United States sent general note of protest to Britain against the illegal seizures and detentions of American cargoes destined to neutral ports.

January 7, 1915, and February 10, 1915.—Britain replied to United States protest of December 26. 1914, refuting American contentions.

January 20, 1915.—Secretary of State wrote to Senator Stone, chairman of Senate Foreign Relations Committee, in reply to Stone's request for information regarding the loan policy of this Government, both as to general loans and credits loans. Department of State did not inform Stone of distinction made between loans and credits on October 24, 1914, and communicated to the appropriate bankers.

February 4, 1915.—Germany declared English Channel and waters surrounding Great Britain and Ireland a war zone and warned neutral vessels of dangers within this zone; proclaimed submarine warfare in this area in retaliation against Britain's illegal interference with trade between neutrals and Germany.

February 10, 1915.—United States Government announced it would hold Germany to strict accountability for acts of naval commanders in Germany's announced war zone.

March 1, 1915.—British and French declarations prohibiting all trade with Germany—in effect a blockade.

March 5, 1915.—Note from British Foreign Office accompanying British order in council of March 11, 1915, notified United States of establishment of so-called "blockade" of German ports.

March 30, 1915.—United States Government protested to British against its illegal blockade measures.

March 30, 1915.—J. P. Morgan & Co., National City Bank, First National Bank, informed Secretary of State they were arranging a $50,000,000 credit for France.

March 31, 1915.—State Department announced publicly that Government could not interpose objections to credit arrangements but had neither approved nor disapproved these.

April 4, 1915.—German Government pointed out to United States the practical unneutrality of the one-sided traffic in arms and munitions with the Allies.

April 21, 1915.—United States Government replied to Germany that any change such as the placing of an embargo on arms would be a change of its own laws of neutrality during the progress of a war and would in itself be a violation of the neutrality of the United States. This is constantly repeated subsequently.

May 7, 1915.—The *Lusitania*, a British liner, carrying almost wholly a contraband cargo, was torpedoed and sunk by a German submarine without warning and with a loss of 124 American lives.

May 8, 1915.—Ambassador Page cabled from London news of secret agreement on basis of which Italy would enter the war.

May 13, 1915.—United States called upon German Government to discontinue submarine attacks against merchantmen, to disavow act of submarine commander, and make reparations.

May 28, 1915.—German Government pointed out it was acting in self-defense against the British method of warfare and asked American Government to consider the realities of the situation—arming of merchantment, etc.

June 8, 1915.—Bryan, Secretary of State, resigned. He thought the second *Lusitania* note to Germany too harsh and wanted this country to warn Americans against traveling on belligerent ships or with cargoes of ammunition, to which Wilson could not agree.

June 9, 1915.—United States again called German Government's attention to its gross responsibility in the *Lusitania* tragedy and renewed the representation in its May 15 note.

July 8, 1915.—German Government said "that American ships will not be hindered in the prosecution of legitimate shipping, and the lives of American citizens on neutral vessels shall not be placed in jeopardy." Repeated that all distinctions between merchantmen and war vessels had been wiped out by the order to British merchantmen to arm themselves and to ram submarines.

July 21, 1915.—United States asked German Government again for a disavowal of "wanton acts of its naval commander in sinking the *Lusitania.*"

July 28, 1915.—Conference of Colonel House, Governor Strong, of Federal Reserve Bank of New York, and Delano, Vice Governor of Federal Reserve Board, on Federal Reserve Board action to broaden its basis of credits to help finance allied purchases of war materials and supplies in the United States.

August 3, 1915.—Conference between House and Hamlin, Governor of Federal Reserve Board, with regard to the necessity of the Board's liberalizing its acceptance regulations to broaden credit facilities.

August 19, 1915.—The British liner *Arabic* torpedoed and sunk without warning and with loss of American lives.

August 21, 1915.—Secretary of the Treasury McAdoo wrote Wilson at length pleading for a change in this Government's policy toward loans in order to permit the flotation of a large allied loan.

September 6, 1915.—Lansing wrote Wilson that this Government's early announced policy that loans were inconsistent with true spirit of neutrality must be changed in view of need for financing large-scale Allied purchases in the United States.

September 11, 1915.—McAdoo wrote Lansing requesting his help to make Anglo-French mission of bankers to negotiate a loan in the United States a success.

October 1915.—Flotation of Anglo-French loan of $500,000,000 by syndicate headed by J. P. Morgan & Co.

October 5, 1915.—German Government told United States that attack by submarine on *Arabic* was contrary to the instructions issued to commanders not to attack passenger liners without warning, etc.; that the Government disavowed the act, regretted the loss of life, and was prepared to pay an indemnity. Also said orders issued to submarine commanders would prevent the recurrence of similar incidents.

October 21, 1915.—United States Government sent another formal protest to Britain against illegal interference with neutral ships and cargoes; declared the blockade of Germany ineffective, illegal, and indefensible.

January 2, 1916.—Lansing wrote Wilson that in view of impossibility of a submarine communicating with an armed merchant ship without exposing itself to the gunfire of the armed merchantman, United States should warn merchant vessels to refrain from carrying an armament, otherwise they would be treated as vessels of war.

January 18, 1916.—United States proposal to Allies of "a modus vivendi for the observance of rules of international law and principles of humanity by submarines and the discontinuance of armament of merchant ships."

February 22 and 25, 1916.—Resolutions introduced in Congress by Representative McLemore and Senator Gore designed to warn Americans against traveling on armed belligerent vessels.

February 22, 1916.—House-Grey agreement providing, under certain circumstances, for American intervention in the war on the side of the Allies.

February 24, 1916.—Wilson letter to Senator Stone, chairman of Senate Foreign Relations Committee, killing the Gore-McLemore movement.

March 23, 1916.—Rejection by Allies of United States modus vivendi of January 18, 1916, regarding armed merchantmen and submarine warfare.

March 24, 1916.—Channel steamer *Sussex*, with Americans on board, torpedoed without warning.

April 13, 1916.—Britain announced she would no longer consider any distinction between absolute and conditional contraband.

April 18, 1916.—United States note to Germany declared that diplomatic relations would be severed unless Germany abandoned her methods of submarine warfare.

April 24, 1916.—Britain replied to United States protest of October 21, 1915, rejecting the American contention and setting forth a general justification of the British interference with neutral trade on the basis of new conditions Britain had to meet.

May 4, 1916.—Germany accepted conditions of American note of April 18 regarding submarine warfare. Pointed out, in effect, that if the United States did nothing effective to force Britain to observe international law Germany might have to revert to her submarine warfare.

May 24, 1916.—United States protested against illegal seizure by British and French of mail between neutral countries.

July 18, 1916.—British Government proclamation blacklisting 85 American firms.

July 23, 1916.—Wilson wrote House of his irritation with the British, and that he was seriously considering asking Congress to authorize him to prohibit loans and restrict exportations to the Allies.

August 1, 1916.—$100,000,000 French Republic loan floated in United States.

September 1, 1916.—$250,000,000 United Kingdom loan floated here.

September 7 and 9, 1916.—Congress approved legislation empowering the President to employ retaliatory action against British interference with our neutral trade.

October 7, 1916.—Acting Ambassador Grew in Berlin cabled Zimmerman statement that resumption of submarine warfare as a political issue would never be ended until the United States should bring pressure on England to abandon the blockade.

October 23, 1916.—A report from the Secretary of Commerce on most effective use of the retaliatory legislation advised against its use on the ground that it would prove too injurious to American trade.

November 1, 1916.—$300,000,000 United Kingdom loan floated here.

November 18, 1916.—Interview of H. P. Davison, of J. P. Morgan & Co., with President Wilson regarding proposed flotation by Morgans of British Treasury bills.

November 24, 1916.—Wilson advised against a loan to Germany under consideration at Kuhn, Loeb & Co.

November 29, 1916.—Federal Reserve Board statement, warning banks and investors against investing in foreign treasury bills. The warning was inspired by Wilson.

December 5 and 7, 1916.—Davison, of J. P. Morgan & Co., cabled Grenfell, of Morgan, Grenfell (London), of his fears regarding further financing of the Allies.

December 12, 1916.—Germany made a peace move.

December 18, 1916.—Wilson suggested that the belligerents communicate their terms of peace.

December 30, 1916.—The Allies rejected the German offer.

January 10, 1917.—The Allies replied jointly to Wilson's note denouncing again the German crimes and setting forth peace terms that would make possible the attainment of their own interests and would be acceptable only to a completely defeated Germany.

January 22, 1917.—Ambassador T. N. Page, in Italy, wrote Lansing and Wilson regarding the secret treaties between Russia and the other Allies.

January 31, 1917.—Germany announced resumption of unrestricted submarine warfare.

February 1, 1917.—$250,000,000 United Kingdom loan floated here.

February 3, 1917.—United States severed diplomatic relations with Germany.

March 5, 1917.—Ambassador Page in London cabled regarding the acute condition of British credit and allied finances and the need for help from the United States.

April 1, 1917.—$100,000,000 French Republic loan floated in the United States.

April 6, 1917.—United States declared a state of war with Germany.

April 30, 1917.—Balfour, British Foreign Secretary, informed Wilson specifically of the terms of the Allies' secret treaties.

May 6, 1917.—Lansing and Balfour discussed the secret treaties.

May 18, 1917.—Balfour transmitted to Lansing a statement on British foreign policy which discussed terms of peace to which Britain was committed by the secret treaties.

Mr. Stenographer, I will put in these exhibits in the order in which I have them numbered today, starting with no. 1, and for my own convenience I desire to have them carried that way today, and you can number them in accord with the general hearings later.

ATTEMPTS BY THE UNITED STATES TO PROTECT NEUTRAL TRADE [1]

Senator CLARK. On August 6, 1914, Secretary of State Bryan wrote to Ambassador Page at London to ask the British Government whether they would agree that the laws of naval warfare, laid down by the Declaration of London in 1909, should be applicable to naval warfare during the then European conflict, providing that Great Britain's enemies also agreed to such an application.

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[1] See also "Exhibits Nos. 3846 through 3863", Hearings, Part XXXI.

It will be remembered that these rules of naval warfare had been agreed upon by all the principal nations of the earth at the London conference in 1909.

The document, that is, the Declaration of London, represented general agreement on the part of the leading nations with regard to rules regarding naval warfare, setting forth lists of contraband, rules governing search and seizure of cargoes and other details of naval warfare.

It had been signed by the delegates of the leading nations, but remained inoperative due to the fact that the British Government had refused to ratify it.

Its adoption by the belligerent nations at the outbreak of the war in 1914 would have insured respect for neutral rights and probably a minimum of interference with United States commerce.

Germany and Austria-Hungary were ready to accept it, as they clearly indicated, realizing, of course, any guarantees to neutral trade a safeguard to them against interruption of essential implements into those central kingdoms.

England, however, was not disposed to accept any document that would have interfered with her aims and ability, keeping always in mind her naval superiority, to prevent any goods from reaching the Central Powers that would have been of any use whatever to them in their conduct of the war.

I think that statement is without dispute. That was the clearly expressed intention of all the powers.

Great Britain announced her willingness to adopt the declaration, with what was referred to as some drafting of modifications, but which any dispassionate consideration will show virtually left her free to use her superior sea power to absolutely isolate Germany.

The natural result of England's policy and of England's actions, without any criticism one way or the other, was to dry up trade between the United States and Germany and the United States and Austria-Hungary, to control our trade with the northern neutrals, Holland, Denmark, Norway, and Sweden, and to tie up our commerce irretrievably with the Allied cause.

At this point I desire to offer exhibit 1, being a cablegram from the Secretary of State, Bryan, to the British Ambassador, Page, in Great Britain, dated Washington, August 6, 1914, 1 p. m. [reading]:

> You are instructed to inquire of the British Government whether they are willing to agree that the laws of naval warfare laid down by the Declaration of London 1909, shall be applicable to naval warfare during the present European conflict, provided that the governments with whom Great Britain is or may be at war also agree to such application. You will further state that this Government believes that acceptance of these laws by the belligerents would prevent grave misunderstandings which may arise as to the relations between belligerent and neutral powers. It, therefore, earnestly hopes that this inquiry may receive favorable consideration.

(The document referred to was marked "Exhibit No. 2502" and is included in the appendix on p. 8458.)

Senator **Clark**. Then I desire to offer as exhibit 2, a document prepared by Carlton Savage, of the Division of Research and Publication of the State Department, setting forth the essentials of the Declaration of London. It is not necessary to read it in detail. It covers the essentials as to blockade and search and seizure.

(The document referred to was marked "Exhibit No. 2503" and is included in the appendix on p. 8458.)

Senator CLARK. I also desire to offer in evidence, exhibit 3, which is a report from Almeric Fitzroy for the American Ambassador, from London, to the Department of State, undated, but received at the Department of State on August 26, 1914, setting forth the decision of the British in council as to the Declaration of London, in which they indicate, as I have said, that they are willing to adopt the Declaration of London with certain modifications, which practically left the British Government unrestricted in regard to search and seizure and blockade; and pointing out that the developments in modern warfare had made practically any article of human consumption eligible as contraband.

In other words, the British at that time—and I will not take the trouble to read this rather long communication but I will put it in the record—insisted that the developments of modern warfare had changed the former rules of international law both in regard to blockade, in regard to search and seizure, and in regard to absolute and conditional contraband.

(The document referred to was marked "Exhibit No. 2504" and is included in the appendix on p. 8459.)

Senator CLARK. Then from time to time, Great Britain proceeded to extend this contraband list which they had set up in the note which I have just read, and Great Britain's application of the doctrine of ultimate consumption, which was a new doctrine in international law, which was aimed at the prevention of the transshipment of goods imported by the northern neutrals into Germany, led to veritable floods of protest from American manufacturers and shippers against interference with our neutral trade.

Then in October and November 1914, the British Government placed embargoes on the exportation from Great Britain and its colonies, as they had a perfect right to do, of rubber, wool, hides, jute, plumbago, manganese, ferromanganese, chrome, tungsten ore, and other ingredients of steel which were absolutely essential for manufacturing interests in the United States who depend on British colonies for their sources of supply in those materials.

This was immediately followed by a protest from American rubber, steel, and wool interests, which led Secretary Bryan to wire Ambassador Page on November 12, 1914:[1]

> It would not seem to the commercial or other interests of Great Britain to pursue a policy which would cripple American manufacturers and depress British interests in the colonies. If American manufacturers are not to obtain necessary supplies, prices of American goods which British may desire will be greatly increased, if, indeed the exportations from this country be not ultimately prevented.

Then a little later the Secretary says [reading]:[2]

> Department will consider reasonable arrangement by American exporters to secure against reexportation from United States to enemy countries of British Government.

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[1] See "Exhibit No. 2508", appendix, p. 8463.

[2] Ibid.

The result of it was working arrangements which resulted between the British Government and American manufacturers, whereby the British Government agreed to permit the exportation to the United States of the articles mentioned above and other articles, on being assured that such articles would not be reexported from the United States in crude or manufactured form to countries at war with Great Britain or to neutral European countries from which Great Britain had not secured satisfactory guarantees against the reexportation of such articles.

In working out the general plan for these arrangements, the British managed also to gain "our at least negative support of their demand that cargoes, especially of copper, shall be consigned to some definite consignee and not to the shipper nor to order."

These agreements went into effect in the early months of 1915, and they had the practical effect of subjecting the foreign trade of American manufacturers who needed the raw materials obtained from allied countries, to British control.

It is to be particularly noted in connection with these agreements that the British Government insisted not only on restricting the exports of any articles manufactured from the raw materials imported from the British Empire to such countries as they might designate or approve, but they also managed by their partial control of the sources of this raw material, by wielding that club, to compel American manufacturers who were dealing with them to agree not to export any articles to any except approved countries, no matter where the raw material had been obtained.

In other words, the British not only controlled articles manufactured from the raw materials obtained in the British Empire, but also controlled and exercised the right to control the shipment of manufactures from any raw materials, wherever obtained.

I now desire to offer exhibit 4, being the proposed working agreement with Great Britain, F. R. 1914, supplement pages 356, 357, 358, being a telegram from the American Embassy, London, dated December 6, 1914, 7 p. m., to the Secretary of State.

It is a very long telegram and I will just read one paragraph which seems to be pertinent.

(The document referred to was marked "Exhibit No. 2505" and is included in the appendix on p. 8461.)

Senator CLARK (reading):

> Should the Government of the United States find itself able to act on the lines herein described, the British Government will gladly negotiate for the grant of permits for the exportation from Great Britain and its colonies to the United States, of rubber, hides, jute, plumbago, manganese, ferromanganese, chrome, tungsten ore, and other ingredients of steel, on receiving assurances that these articles will not be reexported from the United States in their waste, crude, or raw form, and that bloom or ingots of steel and manufactured rubber and leather articles (to be limited to a specific list), will not be exported to countries at war with Great Britain or to neutral European countries from which Great Britain has not secured satisfactory guarantees against reexportation of such articles. This limitation would not, however, interfere with exportation of any of these articles to Great Britain for distribution from there to neutral countries under the limitations imposed by British law.
>
> Effect would be given to these proposals by granting licenses to the agents in Great Britain of American steel, rubber, and leather trades; such licenses to contain stipulations and provide for necessary securities. The British Gov-

ernment has already been in communication with trade representatives and finds that such a scheme is feasible and would be satisfactory to them.

The remarks made at the beginning of this memorandum as to the good offices of the American Government would apply equally to the arrangements made in respect of all the articles that become the subject of license to export to America, and which are not to be reexported.

As soon as the British Government hear that the arrangements herein proposed are acceptable to the United States Government, British officials will be instructed to interview applicants for licenses and to grant permits without delay.

I also offer exhibit 4A, being a telegram from the Department of State, signed by Bryan, dated December 9, 1914, to Ambassador Page.

(The document referred to was marked "Exhibit No. 2506" and appears in full in the text.)

Senator **Clark** (reading):

Your 1199, December 6, 7 p. m., is receiving consideration. So far there does not appear any insurmountable obstacle to a common undertaking for a working basis along the lines outlined in the memorandum, the text of which you quote. Meanwhile, Department thinks it important that a note in the sense of Department's no. 683 (680), December 3, should be presented to the Foreign Office. Department hopes to be able soon to make some definite response to the proposed general arrangement.

I also offer exhibit 5, which is sundry telegrams from Secretary Lansing to the Ambassador to Great Britain, covering protests against the British embargo.

(The documents referred to were marked "Exhibit No. 2507" and are included in the appendix on p. 8463.)

Senator **Clark**. I also offer exhibit 6, sundry similar telegrams having to do with the rubber and hides, steel, and other industries, concluding with the telegram of December 2, from Secretary Bryan to Ambassador Page.

(The documents referred to were marked "Exhibit No. 2508" and are included in the appendix on p. 8463.)

Senator **Clark** (reading):

Your November 17, 1908. American interests are greatly exercised over embargoes.

Importers declare their willingness to give guarantees against re-exportation. Situation is urgent and you will urge the British Government to submit proposals for arrangement which will result in so lifting embargoes as to permit export to United States in quantities sufficient for needs of our manufacturers.

Senator **Clark**. I also offer exhibit 7, a telegram from Secretary Bryan, dated December 23, 1914, to Ambassador Page in Great Britain [reading "Exhibit No. 2509"]:

819. Representatives rubber interests furnish Department with form of guaranty they will give where license to export plantation rubber is granted by British Government, guaranteeing, in case of manufacturers of rubber goods, that they will not, during embargo, directly or indirectly export or procure exportation waste or crude rubber to any county at war with Great Britain or neutral European countries which have not given satisfactory assurances against reexportation of waste or crude rubber and manufactured products thereof listed by Great Britain as absolute or conditional contraband. In cases of importers and dealers in rubber, guaranties additional to the above against sale of rubber or manufactured rubber products to any person or concern who has not given guaranty in foregoing form. Department hopes British Government will modify existing embargo to permit American importers obtain needed supply crude rubber from British colonies.

Two-thousand-and-odd tons rubber purchased and paid for by American concerns now held London and Liverpool. Department understands informally British Embassy here is conferring with home Government respecting releasing this rubber. While this would not relieve situation, it would help materially.

(The document referred to was marked "Exhibit No. 2509" and appears in full in the text.)

Senator CLARK. I also offer exhibit 8, which is the form of agreement to be signed by importers of rubber from British dominions and by manufacturers to whom such rubber is sold.

(The document referred to was marked "Exhibit No. 2510" and is included in the appendix on p. 8464.)

Senator CLARK. I also offer exhibit 9, a letter from the British Secretary of State for Foreign Affairs, Sir Edward Grey, to the American Ambassador, Mr. Page [reading]:

Sir E. Grey presents his compliments to the United States Ambassador and in reply to His Excellency's note of the 22d ultimo relative to the issue of licenses for the supply of manganese to the United States Steel Products Co. has the honor to inform His Excellency that his note of December 12 last stating that further licenses would not be issued was based on information received from reliable sources that the three companies mentioned in that note had exported manganese either directly or indirectly to Germany during the latter part of last year. In view of the paramount necessity, for military reasons, of preventing as far as possible the importation of manganese into Germany, it was therefore considered necessary to restrict the issue of licenses.

In view, however, of Mr. Page's note under reply, Sir E. Grey is happy to state that no difficulty will ensue in future with regard to the supply of ferromanganese to the United States Steel Products Co. or the Carnegie Steel Corporation, subject, of course, to the requirements of this country, if these companies respectively will sign the guarantee forms which have now been prepared for shipments of ferro-manganese to the United States in each case in which permission is required.

A copy of the guarantee form in question is enclosed for His Excellency's information.

Then follows a copy of the form.

(The document referred to was marked "Exhibit No. 2511" and is included in the appendix on p. 8465.)

Senator CLARK. I offer also exhibit 10, being a telegram from the Secretary of State to the British Ambassador, Sir Cecil Spring-Rice, dated January 20, 1915.

(The document referred to was marked "Exhibit No. 2512" and appears in full in the text.)

Senator CLARK (reading "Exhibit No. 2512"):

EXCELLENCY: Having reference to your note of January 8, for the receipt of which I have to thank you, relative to the removal of the British embargo on British rubber:

Your Excellency states that manufacturers desiring to obtain supplies of rubber from the British Empire will be required to enter into an undertaking not to export any raw, waste, or reclaimed rubber except to the United Kingdom or British possessions; not to sell rubber now delivered but to use it in their own factories; to execute orders for manufactured goods from neutral European countries from stocks in the United Kingdom; not to sell manufactured goods to any person in the United States without first ascertaining that he has no intention to export same to Europe except through the United Kingdom and to give notice to His Majesty's Consul General of shipment to non-European countries and to put a distinctive mark on all manufactured goods exported or sold for export. The question has arisen whether this proposed undertaking would comprehend the use and disposition of rubber obtained in countries other than British territories. While I am inclined to the view that the proposed guarantee is intended only to apply to rubber obtained from the United Kingdom or British possessions and to products manufactured therefrom, I will be pleased to have you inform me particularly on this point.

Then the British Ambassador replied on February 3, 1915, to Secretary Bryan.

(The document referred to was marked "Exhibit No. 2513" and appears in full in the text.)

Senator CLARK (reading):

> SIR: I have the honor to acknowledge the receipt of your note, no. 626, of the 20th ultimo, in which you inquire as to the scope of the undertaking which is required to be executed by manufacturers desiring to obtain supplies of rubber from the British Empire.
>
> I have the honor to state in reply to this inquiry that, so far as regards the exportation of raw, waste, and reclaimed rubber, and the exportation of manufactured or partly manufactured rubber goods, the undertaking comprehends the use and disposition of rubber obtained from countries other than the United Kingdom or British possessions and to the sale in the United States of goods manufactured therein.

In other words, the British, by this agreement, asserted and obtained control over the manufacturers of countries which imported anything from the British Empire, even as to their own domestic trade.

The CHAIRMAN. Senator Clark, did it not do more than that? Did it not give at once to American manufacturers a direct interest in the success of the Allies in the cause in which they were engaged?

Senator CLARK. I think that is unquestionably true, inasmuch as they could deal with anybody only with the permission of the British Empire.

They could not deal with any neutral country without permission of the British authorities. They could not even deal with domestic concerns in this country in intra- or interstate commerce within the boundaries of the United States without permission of the British Government.

Naturally it gave them an identity of interest.

Interference with American trade with neutral countries brought in so much protest to the Department of State that on September 26, 1914, it sent to the British Government a protest against the seizures and detention of American cargoes destined to neutral ports.

The American Government in that note did not take issue with the central point of British policy, keeping from Germany all materials capable of military use. The essential part of that note, as I see it, was as follows:

> That this Government is reluctantly forced to the conclusion that the present policy of His Majesty's Government toward neutral ships and cargoes exceeds the manifest necessity of a belligerent and constitutes restrictions upon the rights of American citizens on the high seas, which are not justified by the rules of international law or required under the principle of self-preservation.

Then the note goes on [reading]:

> The greater freedom from detention and seizure which was confidently expected to result from consigning shipments to definite consignees rather than "to order" is still awaited * * *.
>
> Not only is the situation a critical one to the commercial interests of the United States, but many of the great industries of this country are suffering because their products are denied long-established markets in European countries which, though neutral, are contiguous to the nations at war. Producers and exporters, steamship and insurance companies are pressing, and not with-

out reason, for relief from the menace to trans-Atlantic trade which is gradually but surely destroying their business and threatening them with financial disaster.

That was the note of September 26, 1914, to the British Government.

To this note the British countered by quoting statistics which showed an increase of American exports to the neutral countries as well as setting forth in their second lengthy note what they considered to be precedents from the American Civil War for every action complained of by the United States.

On October 21, 1915, the United States addressed a lengthy note of protest to Great Britain, contesting the legality of interferences with neutral ships and cargoes and particularly denouncing the so-called "blockade" measures imposed by the British order in council of March 11, 1915, which the American Government contended to be an absolute and violent contravention of international laws established at that time.

This American note of protest contained some rather strong language. I quote:[1]

> I believe it has been conclusively shown that the methods sought to be employed by Great Britain to obtain and use evidence of enemy destination of cargoes bound for neutral ports, and to impose a contraband character upon such cargoes, are without justification; that the blockade, upon which such methods are partly founded, is ineffective, illegal, and indefensible; that the judicial procedure offered as a means of reparation for an international injury is inherently defective for the purpose; and that in many cases jurisdiction is asserted in violation of the law of nations. The United States, therefore, cannot submit to the curtailment of its neutral rights by these measures, which are admittedly retaliatory, and therefore illegal, in conception and in nature, and intended to punish the enemies of Great Britain for alleged illegalities on their part. The United States might not be in a position to object to them if its interests and the interests of all neutrals were unaffected by them, but, being affected, it cannot with complacence suffer further subordination of its rights and interests to the plea that the exceptional geographic position of the enemies of Great Britain require or justify oppressive and illegal practices.

It is perfectly apparent from the record, I think, that the British Government never took the American protest seriously, and that Washington, although stating them very forcibly in various communications, never seriously pressed these protests.

The CHAIRMAN. Is it not fair, in the light of what is now known, to say that the American Government never intended that they should be taken seriously?

Senator CLARK. I think the best evidence of that is the quotation of Secretary Lansing himself, who was in charge of these matters, and wrote these notes.

In his memoirs, at page 23, he summed up very concisely this British-American situation and the policy which he, as the President's chief aide in the conduct of our foreign relations, sought to pursue:

I quote from Secretary Lansing [reading]:

> Many Americans were deeply incensed at the interference of Great Britain with our sea-borne commerce and with the detentions and seizures by British naval ships of American vessels and cargoes destined to neutral ports. Under

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[1] See 1915 *Supplement of Foreign Relations*, p. 589

the accepted rules of international law these detentions and seizures were illegal and indefensible, as were the lists of contraband issued from time to time by the British Government, which included numerous commodities lacking entirely in the qualities which are usually supposed to impress articles with contraband character. Many more Americans were directly affected by these British practices than were affected by the activities of the German submarines.

Thus, while I was convinced that this country would ultimately become a belligerant because of the peril to the world if autocratic Germany were victor and while my ideas as to foreign policies were based upon this conviction, I, like some other believers in active support of the cause of the Allies, realized that the sensible thing to do was to defer action until, by a gradual process of education and enlightenment, the American people had been brought to a full understanding of the design of the German Government to become overlord of the world.

* * * The notes that were sent (to Britain) were long and exhaustive treaties which opened up new subjects of discussion rather than closing those in controversy. Short and emphatic notes were dangerous. Everything was submerged in verbosity. It was done with a deliberate purpose.

That was several months, more than a year after President Wilson had called on the American people to be neutral in thought as well as deed.

The CHAIRMAN. Further than that, Senator Clark, is it not altogether fair to say that these utterances by Lansing were as of a time when the American public was being led to believe that he as custodian of our neutral policy was truly pursuing a neutral course?

Senator CLARK. I think there can be no possible question about that; I think the uncontradicted record shows that.

The CHAIRMAN. Under, by the way, a discretionary neutrality policy.

Senator CLARK. Yes.

WAR-TIME TRADE IN MUNITIONS AND SUPPLIES [1]

Senator CLARK. Although the American trade with the Allies included all manner of war materials, of which munitions was simply one part, although an extremely important part, the munitions trade as such naturally did more to arouse antagonism between this country and Germany and to sow seeds of hatred than did any other materials of war.

The emotions of the Germans, as well as of a large number of Americans, became excited, naturally enough, over the fact that these munitions were used to kill German soldiers and that these materials of death were being supplied in unlimited quantities to the Allies from the United States, and necessarily Germany and Austria-Hungary were unable to receive any such supplies, because Germany was, of course, cut off from this as well as all other trade from the United States by the Allies superiority on the sea.

On the question of sale of munitions to the belligerents, the Government of the United States took a strictly neutral attitude. I quote from a public circular issued by the Department of State on October 15, 1914. I will insert the whole document in the record, but I will quote only one paragraph at this time. I quote:

In the first place, it should be understood that, generally speaking, a citizen of the United States can sell to a belligerent government or its agent any article of commerce which he pleases. He is not prohibited from doing this by any rule of international law, by any treaty provisions or by any statute of

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[1] See also "Exhibits Nos. 2156 and 2157", Hearings, Part XXVI, pp. 7941 and 7986.

> the United States. It makes no difference whether the articles sold are exclusively for war purposes, such as firearms, explosives, etc., or are foodstuffs, clothing, horses, etc., for the use of the army or navy of the belligerent.
>
> Furthermore, a neutral government is not compelled by international law, by treaty, or by statute to prevent these sales to a belligerent. Such sales, therefore, by American citizens do not in the least affect the neutrality of the United States.

Then a little further down we find this language [reading]:

> For the Government of the United States itself to sell to a belligerent nation would be an unneutral act, but for a private individual to sell to a belligerent any product of the United States is neither unlawful nor unneutral, nor within the power of the Executive to prevent or control.

Immediately after the outbreak of the war, as has been, I think, already put in the record, trade in all materials which were of use in the conduct of war expanded enormously.

In explosives alone, as a part of the munitions trade, which is here specifically under consideration, the export figures jumped from approximately $10,000,000 on June 30, 1914, to $189,000,000 on June 30, 1915, to $715,000,000 on June 30, 1916.

It is not strange that Germany found it difficult to look upon our policy in this regard as being entirely disinterested and neutral.

Joseph V. Fuller, former chief of the Research Section in the Division of Publications in the Department of State, has pointed out in a very able article:[1]

> Clearly enough, the Germans would not have minded so much the sale of goods clearly contraband of war to the Allies had they themselves been able to obtain freely foodstuffs, cotton, copper, and other materials of debatably contraband character directly or through their neutral neighbors. Conversely, they would not have minded so much the general blockade imposed upon them had it been partly equalized by an American embargo on the shipment of military supplies to their enemies.

On December 4, 1914, Ambassador Gerard telegraphed the Secretary of State from Berlin:

> Universal, very bitter, and increasing feeling in Germany because of reported sale by Americans of munitions of war, etc., to the Allies.

I point this out because as far as any record that I have been able to find discloses, it was at this time that the animosity and friction on the part of Germany and the Central Powers towards the United States developed.

Early in December 1914 Senator Hitchcock, of Nebraska, a leading member of the Senate Committee on Foreign Relations, introduced in the Senate a resolution aimed to prohibit the exportation by private firms of munitions of war to any belligerent.

This caused the British Government some concern. On December 11, 1914, Ambassador Page, from London, telegraphed the Secretary of State:

> Sir Edward Grey unofficially expressed the hope to me that the bill introduced by Mr. Hitchcock in the Senate will not pass, aimed to prohibit the exportation by private firms of munitions of war to any belligerent.

We now have the Secretary of State for Foreign Affairs of the British Government dictating what acts shall be passed by Congress.

The CHAIRMAN. To an American Secretary of State.

Senator CLARK. To an American Secretary of State.

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[1] *Journal of Modern History*, September, 1934, p. 280.

The CHAIRMAN. Who has since declared that his sympathies were entirely with the British at that stage.

Senator CLARK. He calls attention to the fact that this would be special legislation, passed while war was in progress, making a radical departure from a long-established custom, and that for this reason it would appear an unneutral act toward the belligerents that can profit by it.

To which Mr. Bryan, then Secretary of State, responded on December 14, 1914:

> I have explained to Ambassador Spring-Rice that Mr. Hitchcock did not consult the President or State Department in regard to his resolution. Though from Nebraska, he is not personally friendly to me.

That was the truth, incidentally.

In his memoirs, Lord Grey tells us that the Allies were dependent upon the resources of the United States in order to carry on the war at all or with any chance of success.

Throughout this period Germany found it difficult to reconcile this Government's attitude of strict neturality on this question with its attitude of mild protest against illegal British interferences with American neutral trade.

This is well stated in a note delivered to the Secretary of State by Ambassador Bernstorff on April 4, 1915, on German-American trade and on the question of delivery of arms, in which it is pointed out that since Great Britain had modified the general principles of international law "in a way which arbitrarily stops the commerce of neutral nations with Germany" the German Government had to assume that the United States aquiesced in these violations of international law.

I quote from Von Bernstorff's memorandum:[1]

> Then there is also the attitude of the United States in the question of the exportation of arms. The Imperial Government feels sure that the United States Government will agree that in questions of neutrality it is necessary to take into consideration not only the formal aspect of the case but also the spirit in which the neutrality is carried out.

Then a little later on—

> If it is the will of the American people that there shall be a true neutrality, the United States will find means of preventing this one-sided supply of arms or at least of utilizing it to protect legitimate trade with Germany, especially that in foodstuffs.

The Secretary of State, in his answer to this note, reminded the German Ambassador that[2]—

> In the third place, I note with sincere regret that, in discussing the sale and exportation of arms by citizens of the United States to the enemies of Germany, Your Excellency seems to be under the impression that it was within the choice of the Government of the United States, notwithstanding its professed neutrality and its diligent efforts to maintain it in other particulars, to inhibit this trade and that its failure to do so manifested an unfair attitude toward Germany. This Government holds, as I believe Your Excellency is aware, and as it is constrained to hold in view of the present indisputable doctrines of accepted international law, that any change in its own laws of neutrality during the progress of a war which would affect unequally the relations of the United States with the nations at war would

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[1] See "Exhibit No. 2514", appendix, p. 8466.
[2] See "Exhibit No. 2515", appendix, p. 8468.

be an unjustifiable departure from the principle of strict neutrality by which it has consistently sought to direct its actions and I respectfully submit that none of the circumstances urged in Your Excellency's memorandum alters the principle involved. The placing of an embargo on the trade in arms at the present time would constitute such a change and be a direct violation of the neutrality of the United States.

Mr. Chairman, I am going to read that last sentence again, in view of its importance in connection with the present controversy as to whether the United States should fix a neutrality policy before the outbreak of a war somewhere else in the world, or after it.

The CHAIRMAN. This is from the letter of the Secretary of State to the German Ambassador, the one dated April 21?

Senator CLARK. Yes [reading]:

This Government holds, as I believe Your Excellency is aware, and as it is constrained to hold in view of the present indisputable doctrines of accepted international law, that any change in its own laws of neutrality during the progress of a war which would affect unequally the relations of the United States with the nations at war would be an unjustifiable departure from the principle of strict neutrality by which it has consistently sought to direct its actions, and I respectfully submit that none of the circumstances urged in Your Excellency's memorandum alters the principle involved. The placing of an embargo on the trade in arms at the present time would constitute such a change and be a direct violation of the neutrality of the United States.

Mr. LAMONT. Is that while Mr. Bryan was Secretary of State or Mr. Lansing?

Senator CLARK. That was Mr. Bryan.

I offer exhibit 12, being the letter of Ambassador von Bernstorff, and exhibit 13, being the answer dated April 21, 1915, from Secretary Bryan; and I desire to offer exhibit 13A, being an article prepared by Prof. Charles Cheney Hyde, submitted to Secretary Lansing, together with a very complimentary note to Secretary Lansing.

I offer this because of the recent testimony of Professor Hyde.

It is a rather long article, which I will offer for the record.

(The documents referred to were marked "Exhibits Nos. 2514 to 2516" inclusive, and are included in the appendix on pp. 8466 to 8469.)

Senator CLARK. Professor Hyde is a well-known authority on international law, who was subsequently solicitor for the Department of State.

I will read merely certain portions of it [reading from "Exhibit No. 2316"]:

Throughout the war the suggestion has come from Germany and Austria-Hungary that if imbued with a spirit of real neutrality the Government of the United States would endeavor to equalize the position of those belligerents with respect to their enemies, by cutting off the access of the allies to its markets, and also possibly by resisting the efforts of Great Britain to cut off food supplies from neutral sources. The response of the United States has been that according to international law as exemplified by the Hague convention above noted a change of rule in the course of the war, favorable to one belligerent and harmful to its enemy, would amount to unneutral conduct.

The only ground justifying a change of the rules expressed in the convention—and one which the convention itself makes note of in its preamble—is the necessity of a neutral power to make the change in order to protect its own rights. As Secretary Lansing has recently said:

Then follows a quotation from Secretary Lansing [continuing reading from "Exhibit No. 2516"]:

That the United States does have the right in case of need for example on grounds of self-defense, to change the rules and to forbid the sale within its territory of arms to belligerent governments, or to prevent the departure from its territory of such arms when sold may prove of inestimable value. Two reasons for the assertion of this right might cause us to exercise it. First, the failure of Great Britain to heed American protests against unlawful restrictions imposed upon American commerce; secondly, belief that the unrestricted exportation of arms to the Allies would cause Germany and Austria-Hungary to take steps both hostile and injurious to the United States.

The most serious aspect of the exportation of arms from the United States today is the magnitude of the business. Its relation to the highest interests of our country cannot be estimated by the experience of neutral states in past wars wherein such activities were on a smaller scale. In probably no war during the past century has the sale of arms to allied belligerent powers attained such vast proportions or threatened to inject so decisive an element into the outcome of the struggle. Purchases and shipments now being made by agents of the Allies are gradually developing to a degree such as to convert them into valuable aids of those belligerents. A portion of the United States is becoming a base of supplies of such magnitude that, unless retarded, the success of armies, possibly the fate of empires, may ultimately rest upon the output of American factories and the exports from American soil. If the part taken by the people of the United States in behalf of the Allies should be deemed by their enemies likely to rob them of the fruits of victory, no effort would be spared to render our people impotent and their aid valueless. It is inconceivable that a powerful state engaged in a war against Russia, France, and England would allow any consideration whatever to deter it from preventing the people of a neutral state, such as our own, from becoming the decisive factor in the struggle. The inhabitants of no neutral state can decide the issues of a war by participation therein, without making their country a party to the conflict. The operation of this principle is believed to be relentless.

Then a little further along Professor Hyde says [reading from "Exhibit No. 2516"]:

It is urged by some that the cause of the Allies is the cause of civilization, and therefore the cause of the United States, that an embargo on arms would mean victory for Germany, defeat for its enemies, and serve to expose the United States itself to ultimate attack whenever the Teutonic Empire turns longing eyes toward the Western Hemisphere. It is contended, therefore, that the United States should furnish all possible aid to Great Britain, France, and Russia, as the best means of weakening a future and probable enemy.

Such advocates commonly assume that active aid by means of American war material can be given to the Allies indefinitely, and to a degree beyond precedent, without necessarily causing the United States to be made a party to the conflict. They ignore the fact that Germany will never permit the people of the United States to become the decisive factor in the war, without stubborn and prolonged resistance. They fail to realize that the elimination of the United States as a base of supplies may be regarded by the Kaiser as vital to Germany as the retention of Alsace or the subjugation of Servia. This grim fact must guide all our reckonings. We cannot in this war turn the scales of victory as we like, because the moment we appear to exert that decisive influence we become ourselves the object of attack, and expose our resources and industries to the danger of destruction. Thus the issue cannot arise whether it is better for the United States on the one hand for the Allies to lose their fight without American aid, or on the other hand for the Allies to win with American aid, even should it drag our country into the war; for as soon as we abandon our neutral status, for whatsoever cause, our impotence becomes apparent, and our assistance insignificant. This fact offers a complete answer to one who urges that the United States should maintain by force the right to supply arms to any belligerent purchaser. The value of that right depends upon the sufferance of the state against whose interests it is exercised. The moment that state, such as Germany, for reasons already observed, becomes our enemy and we oppose force to force, we ourselves expose to destruction the value of what we seek to preserve. It may be observed also that the people of the United States, however willing to fight for certain principles, would hesitate long before fighting for others. Our right as a neutral to sell war material to a belligerent state to enable it to cripple an adversary with which the United States is at peace would never appeal to the American people to a degree such that they would consent to make war for the mere purpose of preserving that commercial privilege.

A little further along, Professor Hyde says:

> It may be urged that under no circumstances could we prevent the sale of supplies to the allied states of Europe without forfeiting their goodwill, and possibly without making them our enemies. It is doubtless true that tremendous pressure would be brought to bear upon the Department of State to prevent any embargo. It will be remembered, however, that the Hague Convention of 1907, above noted, recognizes the right of a neutral to change its policy in the course of a war in order to protect its own rights. Can anyone doubt that to save itself from war with Germany, or to prepare itself from danger of attack, or to secure observance of some violated principle of international law the United States could not reasonably and justly establish such an embargo? It would not be unneutral for the United States, on grounds of self-defense, to prevent its territory from becoming a decisive base of operations of allied belligerent powers. It would not be unneutral, under such circumstances, for the United States to prevent those powers from transforming our Atlantic seaboard into a series of foreign arsenals supplying expeditions against their enemies and our friends.

Then, in the last paragraph of this opinion, Professor Hyde says [reading from "Exhibit No. 2516"]:

> While the exportation of war supplies imposes upon our Government no legal duty of prevention, and while the traffic may not as yet have attained a volume sufficient to produce alarm in Germany, it may, by reason of its increasing proportions and its degree of assistance to nations fighting in alliance, lead us to a position where we may be regarded by their foes as a most dangerous participant and hence as an inevitable enemy. Does it not, therefore, behoove us to be prepared to give the right answer when the time comes, to this final and simple question, which is submitted to your consideration: Is the endeavor to make the resources of the United States win the fight for the Allies worth the price of war with Germany? Or, conversely, is the maintenance of neutrality worth an embargo on munitions of war?

The CHAIRMAN. Then, Senator Clark, there was decided opinion prevalent at that time that the United States could, even while war was on, alter its neutrality policy, was there not?

Senator CLARK. That is perfectly true, from very eminent authority; but the official position of the United States was laid down as an indisputable principle of international law, that the neutrality policy of the United States with regard to the exportation of munitions, or other contraband, could not be altered after the war was in progress without a violation of our neutrality.

The CHAIRMAN. And the administration turned a rather deaf ear to an authority like Mr. Hyde in that hour, did it not?

Senator CLARK. That is apparently true.

It might be pointed out in that connection that, of course, the neutrality policy of the Administration with regard to the loans was apparently changed frequently some time before it was actually announced to the public.

Perhaps the best general résumé of this whole subject is contained in the note to the United States Government from the Austro-Hungarian Government, on June 29, 1915, relative to the shipment of arms and ammunition by citizens of the United States to Great Britain and her Allies, and the reply of the United States Government to that note.

After commenting upon the enormous traffic in munitions of war between the United States and Great Britain while Austria-Hungary and Germany had been absolutely excluded from the American market, the Austro-Hungarian Government wondered whether the attitude of strict neutrality of the American Government did not, under the conditions which had developed during the course of the war, in actuality thwart the very intention to remain strictly neutral, expressed by President Wilson and Secretary Bryan in the early days of the war.

The American reply, which stated most completely and lucidly the attitude of this Government with regard to the munitions trade with the Allies, reiterated the strictly legal ground for this attitude of strict neutrality and refused to admit any of the Austro-Hungarian contentions.

It is worthy of note that prior to the making public of this reply, Secretary Lansing sent the following communication to President Wilson:

THE SECRETARY OF STATE,
Washington, August 2, 1915.

MY DEAR MR. PRESIDENT: In view of the making public of the Austrian statement in regard to the exportation of arms and ammunition, I hasten to send you a draft of reply. I have not had time to review it with the care I should like to give to it.

You will observe in reading it that it is presented in a popular rather than a technical manner because I think it will be more valuable for the public here in the United States than for its effect upon Austria-Hungary.

I hope you can pass upon it speedily because I believe it would, at the present moment, have a very beneficial effect on public opinion. It is our first opportunity to present in a popular way the reasons why we should not restrict the exportation of munitions of war.

So, according to Secretary Lansing, this was more of an appeal to the public than it was an answer to the Austro-Hungarian note [reading]:

If you have noticed in the papers, meetings are being held under various auspices looking to the imposition of an embargo on arms and ammunition. The propaganda is being conducted in various parts of the country and if continued may become very embarrassing.

Faithfully yours,

(Signed) ROBERT LANSING.

To this letter the President replied on August 5, 1915:

MY DEAR MR. SECRETARY: I have gone over this paper very carefully, indeed, and these questions urged themselves upon me:

1. Can this argument not be taken as an argument in sympathy with the Allies and against militarism, which is Germany?
2. Are we not ourselves about to urge the control of the manufacture of arms and munitions by every government in our proposed understandings and undertakings with the Latin American countries; and do we not wish ultimately to strive for the same thing in the final European settlement?

Of course, we are arguing only to the special case, and are absolutely unanswerable in our position that these things cannot be done while a war is in progress as against the parties to it; but how far, do you think, the arguments we urge in this paper will estop us in future deliberations on the peace and security of the world?

Faithfully yours,

(Signed) W. W.

Evidently Germany felt that the United States did not contend for its neutral rights against illegal interference on the part of Britain with the neutral trade of the United States with any considerable force.

There was widespread feeling on the part of many Americans as well as the German Government, that the Allies' interference with what we were asserting as neutral rights might be met by an interference with the duty of allowing them access to American markets.

Either the American Government did not perceive the importance of this bargaining asset, that is, did not perceive the possibility that by insisting upon our neutral rights under a threat of excluding them from American markets, it could have compelled Great Britain to obey international law and recognize our neutral rights, or they ignored it. Lord Grey was, however, far from failing to realize their possibilities, and in his memoirs, as I read the other day, he very clearly emphasized that possibility. I quote again [reading]:[1]

> To return to the question of contraband, blockade of Germany was essential to the victory of the Allies, but the ill will of the United States meant their certain defeat. After Paris had been saved by the Battle of the Marne, the Allies could do no more than hold their own against Germany; sometimes they did not even do that. Germany and Austria were self-supporting in the huge supply of munitions. The Allies soon became dependent for an adequate supply on the United States. If we quarreled with the United States, we could not get that supply. It was better, therefore, to carry on the war without blockade, if need be, than to incur a break with the United States about contraband and thereby deprive the Allies of the resources necessary to carry on the war at all or with any chance of success. The object of diplomacy, therefore, was to secure the maximum of blockade that could be enforced without a rupture with the United States.

This I take to be an explicit declaration by Sir Edward Grey that if the United States had insisted on its contentions as to the rule of blockade and search and seizure, its contention as to the prevailing international law at the moment, England perforce would have been forced to recognize the rights asserted at that time by the United States.

The CHAIRMAN. Lord Grey, of course, had these letters of protest from our State Department during those days. Is it probable that he did not take them seriously?

Senator CLARK. I do not know that Sir Edward Grey is to be blamed for that, when it is in evidence in the memoirs both of Lord Grey and Walter Hines Page one of these notes was delivered to the British Foreign Office by the American Ambassador with the remark, "Now you have read it, how are we going to answer it?" I think the British Secretary would have been rather justified in reading these notes with his tongue in his cheek.

The CHAIRMAN. Secretary Lansing has written that he did not intend that these should be taken seriously. Has there been any evidence indicating that there were any hints or any reasons thrown out to the British that they were not to be taken seriously? If Secretary Lansing in later years was ready to admit that they were not to be taken seriously, is it not altogether probable that the British were given to understand that they were not to be taken seriously?

Senator CLARK. I am unable to say as to Secretary Lansing. Of course, the repeated evidence of Ambassador Page's intervention in the matter, both Ambassador Page's memoirs and Earl Grey's, is that the matter of having the steamer *Dacia* seized by the French Navy instead of the British Navy was actually suggested by the American Ambassador while he was actually delivering a note of protest against the seizure of that ship.

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[1] Vol. II, *Grey's Memoirs*, p. 103.

This same thing has been recognized by Mr. Ray Stannard Baker, President Wilson's biographer who has possession of his papers, in his most recent volume on Wilson, where he very lucidly and emphatically stated the relationship between tremendous traffic in war materials which so rapidly grew up in the United States and the Allied cause, and the resulting ineffectiveness of the "diplomacy of neutrality."

I quote from Woodrow Wilson, Life and Letters, Neutrality, 1914–15, page 181:

> Thus by the end of the year 1914 the traffic in war materials with the Allies had become deeply entrenched in America's economic organization, and the possibility of keeping out of the war by the diplomacy of neutrality, no matter how skillfully conducted, had reached the vanishing point. By October, perhaps earlier, our case was lost.
>
> While British diplomacy maneuvered with skill to involve American industry and finance in the munitions traffic, it is certain that American business needed no compulsion to take war orders. * * *

A little further on he says:

> However we may repudiate the motive, the intricate business connections with the Allies developed during 1914, 1915, 1916—until the very economic life of the country rested upon the munitions traffic—stimulated a powerful interest in the victory of the Allies. On the other hand, German efforts to break up this relationship, with consequent injury to life and property, tended to provoke our Government to vindication by force. There was a kind of fatality about it all, due on the one hand to the weakness and futility of the political power in such a crisis, with its inadequate legal sanctions, and on the other to the inexorable implications in the realities of a world-encircling economic system.

The CHAIRMAN. Senator Clark, Mr. Baker in his writings has indicated that in his opinion our neutrality cause was lost as early as the fall of 1914. Was there up to this point any question arising by reason of submarine warfare? Had the conduct of Germany with her submarines at that time entered the picture at all?

Senator CLARK. As to whether the Germans were using submarines in the fall of 1914, I am not certain. Certainly there had been no protest, no infringement of American rights by the use of submarines, and no protest on behalf of the American Government to the use of submarines at that time. That is, there had been no loss of life. I am not quite certain in making that statement whether they had used submarines. I am not quite certain, but I believe that they had begun to use submarines to some extent prior to the end of 1914.

The CHAIRMAN. Yes; but there had not been acts by the submarines that challenged international law?

Senator CLARK. There had been no question in international law involved prior to the end of 1914.

The CHAIRMAN. Exactly.

ARMED MERCHANTMEN

Senator CLARK. We come now to the consideration of a matter which is very intimately involved in my mind with the question of submarines. That was the policy of the Allied governments, particularly Great Britain, with regard to the arming of merchant ships, which was contended by the Germans was for offensive purposes as against submarines as well as for defensive purposes, which had been heretofore the practice in international law.

Germany's answer to Britain's control of the high seas, to her alleged illegal blockade measures was the submarine. Of course, we all know that it was this weapon which produced and kept alive the bitter tension between the United States and Germany, and it was submarine warfare which became, eventually, the immediate *casus belli* for the entrance of the United States into the war.

Involved in the submarine controversy were two main issues from the American point of view—the status of armed merchantmen and the right of Americans to travel on belligerent ships carrying contraband of war or munitions of war.

In the German note of July 8, 1915, on the *Lusitania*, Germany contended that her only effective weapon against Britain's paralyzation of Germany's neutral trade was the submarine, and that the submarine could not apply the accepted principles of international law regarding visit and search without exposing itself to attack by merchantmen's so-called "defensive guns"; such merchantmen were in effect armed for offensive purposes and were, therefore, auxiliary cruisers, according to the contention of Germany and of some neutral countries. Nor could she recognize the immunity from submarine attack of enemy ships carrying munitions of war because Americans were present on them.

In other words, just as the British had contended at the beginning of the war that the development of warfare had caused a change in international law as it existed up to that time and made articles contraband which had not hitherto been considered contraband, and had changed the effective rules of blockade and of search and seizure, so the Germans later contended that the development of warfare, particularly the new British contentions as to contraband and as to blockade, had brought into effect and legalized a new weapon, namely, the submarine, which had changed the hitherto existing rules of international law as to visit and search. Each side in effect was claiming that there had been an advance in the methods of warfare which changed the hitherto existing international law on the subject.

The problem of armed merchantmen was admittedly an extremely difficult one.

In the summer of 1915 the German Government pointed out that distinctions between merchantmen and war vessels were no longer true, since British merchantmen had been ordered to arm themselves and also ordered to ram submarines on sight without waiting for an attack.

The problem thus raised began to cause the administration in Washington some very considerable worry. When merchantmen carry arms and sink the submarines that are trying to search them, the question was whether the ships remained merchantmen with all the privileges of such freedom of the seas and access to American ports, or did they become warships subject to regulation as warships on their entrance into American ports and departure from American ports.

On October 2, 1915, Colonel House recorded in his dairy a conversation with Lord Reading, who was at that time in the United States as head of the commission to negotiate the $500,000,000 Anglo-

French loan to which we have referred, in regard to the armed merchantmen issue:

> What the British Government desires is that on the one hand we shall demand of Germany that no merchantman shall be sunk without warning, and on the other hand, that merchantmen shall, as in times gone by, have the right to arm. I mentioned my conference with Lansing on this subject, in which Lansing did most of the arguing, holding that they could not have their cake and eat it too; that it was manifestly unjust to the submarine to give merchantmen warning and then permit them to fire upon the submarine and sink it while she was giving the warning.

I offer exhibit 14, being the complete diary entry from which I have just read a portion, and also the letter of October 4, 1915, from President Wilson to Mr. E. M. House, 115 East Fifty-third Street, New York, in which he says:

> Dear Friend: The idea about a main issue for the campaign next year seems to me a fine one; it is indeed the one that has been vaguely in my own mind for some time. I am to greet the D. A. R. within a week or so; what would you think of my using that occasion, when the natural theme would be patriotism, to develop the idea?
>
> I read the letters from Plunkett and Balfour—

to which House has referred in the diary to which I have just referred—

> with the greatest interest. The matter of armed merchantmen is not so simple as Balfour would make it. It is hardly fair to ask submarine commanders to give warning by summons if, when they approach as near as they must for that purpose they are to be fired upon, as Balfour would evidently have them fired upon. It is a question of many sides and is giving Lansing and me some perplexed moments.

(The document referred to was marked "Exhibit No. 2517" and is included in the appendix on p. 8474.)

Senator Clark. Now, by January 1916, which is right after the sinking of the *Persia*, Secretary Lansing had become sufficiently aroused to the danger on our part of continuing to treat British armed merchantmen purely as commercial vessels to bring the subject directly to the attention of the President, in a letter which presented the problem clearly and comprehensively. I will read the letter in part [reading from "Exhibit No. 2518"]:

> Three or four days ago I forwarded to the Italian Ambassador at his request the statement in regard to armed merchant vessels, which we issued in September 1914. I had discussed the question some 4 or 5 years before with Mr. Barclay, of the British Embassy, and told him that, in view of the development of submarines as commerce destroyers, which had been unknown when our statement was issued, I felt that the arming of merchant vessels with any gun of sufficient caliber to attack a submarine would make it very difficult, if not impossible, to insist that a submarine should expose itself to attack by coming to the surface and hailing a vessel so armed; and that, while the armament might be termed "defensive", it was capable of being used offensively against a submarine and so, I thought, that a merchant ship carrying a gun or guns would have to be considered and treated as a vessel of war if it entered our ports. * * *
>
> Since we issued the statement of September 1914, formally, it appears to me advisable to issue a new statement setting forth the new conditions resulting from the successful employment of submarines in interrupting and destroying commercial vessels, the impossibility of the submarine's communicating with armed merchant ships without exposing itself to the gravest danger of being sunk by gunfire because of its weakness defensively, the unreasonableness of requiring a submarine to run the danger of being almost certainly destroyed by giving warning to a vessel carrying an armament, and that, therefore, merchant vessels should refrain from mounting guns large enough

to sink a submarine, and that, if they do, they become vessels of war and liable to treatment as such by both belligerents and neutrals.

The chief difficulty with the situation seems to me to lie in this: If some merchant vessels carry arms and others do not, how can a submarine determine this fact without exposing itself to great risk of being sunk? Unless the Entente Allies positively agree not to arm any of their merchant vessels and notify the Central Powers to that effect, is there not strong reason why a submarine should not warn a vessel before launching an attack?

You will recall the case of the *Baralong*, where a German submarine was bombarding a vessel from which the crew had escaped in boats, when a tramp steamer approached flying the American flag. The submarine remained on the surface and awaited the steamer, which, on nearing the submarine, lowered the American flag, hoisted the British colors, and with a gun mounted on the stern (a defensive armament according to our early definition), opened fire and sank the German vessel, killing all the crew. The British Government would urge that this was merely a ruse de guerre and entirely allowable, and so it would have been under old conditions, but under the new conditions it presents a strong argument in favor of submarine attack without warning.

Not only, therefore, should we, in my judgment, rewrite our statement as to the status of armed merchant vessels, but show that if any vessel of that class is armed, all merchant vessels are in danger of sudden attack without warning. As to the use of the American flag on any merchant ship converted into an armed vessel, it might be well also to make representations to the British Government.

To which Mr. Wilson replied on January 10, 1916, as follows [reading]:

My Dear Mr. Secretary: This seems to me reasonable and thoroughly worth trying.

Senator **Clark**. I offer exhibit 15, being the letter of Secretary Lansing, from which I have just read a part, and also no. 16, the note from President Wilson, which I have just read.

(The letters referred to were marked "Exhibits Nos. 2518 and 2519" and are included in the appendix on pp. 8474 and 8475.)

On those instructions from President Wilson contained in the note, Secretary Lansing proceeded to draft a proposal which he sent to the President, with the following covering letter of January 17, 1916 [reading]:

My Dear Mr. President: I enclose for your consideration a draft of a letter to the British Ambassador dealing with the submarine question, and suggesting a method by which future loss of life on merchant vessels might be avoided.

My first inclination was to send letters to the German Ambassador and Austrian Chargé, but two reasons prevented: First, I was convinced that the German and Austrian Governments would assent to the proposal, as it only required them to conform to the rules of international law, while it required their enemies to modify a present practice which might be construed into the relinquishment of a legal right; and second, if Germany and Austria acceded promptly to the suggestion, any demurrer by Great Britain, France, Italy, or Belgium would, if it became known (as it would undoubtedly through the German or Austrian Embassies), arouse adverse criticism in the press of this country and excite public resentment against the Entente Powers, which appears to be increasing from day to day.

By adopting this method of approach, the proposal can be kept secret if it is refused by the Entente Governments and if it is considered inexpedient to make it public.

(The document referred to was marked "Exhibit No. 2520" and is included in the appendix on p. 8476.)

Senator **Clark**. So that, having set out to the President with great force and clarity the contention as to the treatment of these armed merchantmen, the Secretary of State now proposes in a letter to the President that the message be not conveyed to the powers which he thought would accept it as being in conformity with the principles of international law, but first be tried out on the patries to which it was directed and be kept secret, unless they would indicate their willingness to it in advance.

President Wilson's approval of this course was more or less enthusiastic.

On January 17, 1916, he directed a letter to Mr. Lansing, reading as follows [reading from "Exhibit No. 2520"]:

> My Dear Mr. Secretary: This draft has my entire approval. I hope that you will send it to the governments you have indicated to me; and I most sincerely hope that they will feel that we are right in our argument and suggestions and will be willing to cooperate with us in attaining the object we have in view, an object which they must surely wish to accomplish as earnestly as we do, and which this seems in the circumstances the only feasible way of reaching.

The proposal itself from Secretary Lansing to the Allied Governments went forward on January 18, 1916, and the *modus vivendi*, as Secretary Lansing says for the observance of rules of international law and principles of humanity by submarines and the discontinuance of armament of merchant ships. It pointed out that the use of the submarine had changed the situation regarding so-called defensively armed merchant vessels, that a submarine could not stop and search a merchant vessel on the high seas without exposing itself to almost certain destruction by the guns on board the merchant vessel.

It goes on to say [reading from "Exhibit No. 2521"]:

> It would, therefore, appear to be a reasonable and reciprocally just arrangement if this could be agreed by the opposing belligerents that submarines should be caused to adhere strictly to the rules of international law in the matter of stopping and searching merchant vessels, determining their belligerent nationality, and removing the crews and passengers to places of safety before sinking the vessels as prizes of war, and that merchant vessels of belligerent nationality should be prohibited and prevented from carrying any armament whatsoever. * * *

A little later on he says [continuing reading from "Exhibit No. 2521"]:

> I should add that my Government is impressed with the reasonableness of the argument that a merchant vessel carrying an armament of any sort, in view of the character of submarine warfare and the defensive weakness of undersea craft, should be held to be an auxiliary cruiser and so treated by a neutral as well as by a belligerent government, and is seriously considering instructing its officials accordingly.

I may add that that was precisely the policy adopted by the Government of Holland from the beginning of the war to the end, treating an armed merchantman as a ship of war, and accorded the same treatment in its ports as accorded ships of war, and by that means Holland was able to maintain its neutrality throughout the war.

I offer Committee exhibit 17, being the letter from Secretary Lansing to President Wilson dated January 17, 1916, to which I have just referred, and also the draft of the proposed note to the British Ambassador; and also the answer of President Wilson, dated January 17, 1916.[1] Likewise I offer Committee exhibit 18, being the formal note from the Secretary of State to the British Ambassador dated January 18, 1916.

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[1] Previously entered as "Exhibit No. 2520."

(The letter referred to was marked "Exhibit No. 2521" and is included in the appendix on p. 8478.)

Senator **Clark**. Now, we find that the British—this appears from many sources—that the British were quite overcome by this proposal on the part of the United States. It is shown that Sir Edward Grey was grave and disappointed by Ambassador Page. On January 27, 1916, Secretary Lansing wrote to President Wilson regarding the British attitude as revealed by the reports from London of Secretary Page, and I will read the whole letter because it is not very long (reading "Exhibit No. 2522"):

> (Personal and confidential.)
>
> My Dear Mr. President: The British Ambassador called upon me this morning and handed me the enclosed paper which is the substance of a telegram received by him from Sir Edward Grey in regard to our proposition as to a modus vivendi in connection with submarine warfare. I also enclose a telegram upon the same subject, deciphered late yesterday, received from Ambassador Page at London.
>
> It seems to me that the British Government expected us to denounce submarine warfare as inhuman and to deny the right to use submarines in attacking commercial vessels; and that these statements by Sir Edward Grey evidence his great disappointment that we have failed to be the instrument to save British commerce from attack by Germany.
>
> I must say that I am very considerably disturbed as to Mr. Page's attitude on all subjects which in any way affect the policies of Great Britain.

He well might be—

> He certainly is influenced very strongly by the atmosphere in which he is and I frequently doubt whether he urges the cases involving American rights with the force and vigor which he should as American Ambassador.
>
> In regard to the submarine matter I think there is nothing to be done until we have heard from the allies of Great Britain, but I presume in view of these telegrams that they will be opposed to any arrangement. I do not think it is necessary for us to act immediately upon such refusal but we should consider what course we are going to take with regard to Americans traveling on vessels carrying arms which can be used offensively against submarines. I doubt whether we can insist that vessels so armed can be considered other than as auxiliary cruisers of the respective navies of the Allies.
>
> I would be very much gratified if you could give me your views on this subject.
>
> Faithfully yours,

(The document referred to was marked "Exhibit No. 2522" and appears in full in the text.)

Senator **Clark**. Now, chronologically, it should be remembered that it was precisely at this time that Colonel House was acting as a sort of super-Secretary of State of the United States, without formal appointment or confirmation by the Senate, and peace emissary to Europe at large, and that he was in London laying the groundwork for the famous gentlemen's agreement, which has been known as the Grey-House amendment.

Colonel House evidently saw that this policy just enunciated by the Secretary of State, with the approval of the President, with regard to armed merchantmen would jeopardize the success of his careful negotiations and plans for the President to intervene to bring the war to a close.

On February 2, 1916, 5 p. m., committee exhibit 20, which I offer, Secretary Lansing cabled Colonel House as follows:

> Call your attention to confidential telegram January 26, 4 p. m., addressed to Embassy, Paris. Page cables that Grey is seriously disturbed over proposal as he claims it is wholly in favor of Central Powers and against Allies. Page fears that this proposal will be considered German victory and that all our influence with Allies will be lost. I feel strongly that the proposal is fair and only humane solution of submarine warfare for the future. If merchant ships are armed and guns used to sink attacking submarines as has been done and as merchant ships are now instructed to do then it is unreasonable to insist that submarines should take risk of coming to surface to give warning. Feel that Allies' refusal to consider proposal calmly will strengthen German's position. This proposal has no relation to Lusitania settlement and not yet mentioned to Germany but made necessary by conditions in Mediterranean and as merchant ships are arriving here carrying guns. Gerard cables that you feel we are asking too much of Germany in Lusitania case. Please cable fully your views. We feel any settlement without a disavowal or admission of illegality would not be acceptable to our people. Payment of damages incidental and not the material question.

(The document referred to was marked "Exhibit No. 2523" and appears in full in the text.)

Senator Clark. Then Colonel House, who, as I say, at that particular period was negotiating the famous Grey agreement, which did not become public until after the war, cabled back to the Secretary of State from London, under date of February 14, 1916, 6:35 p. m., as follows:

> Thanks for your information concerning the latest phase of the L settlement. Germany should, and I think will, agree to German Ambassador's latest proposal. There are so many other issues involved in the controversy concerning armed merchantmen that I sincerely hope you will leave it in abeyance until I return. I cannot emphasize too strongly the importance of this.

(The document referred to was marked "Exhibit No. 2524" and appears in full in the text.)

The Chairman. Senator Clark, have you given thought to what those many other issues involved might have been?

Senator Clark. I took it to be the negotiation of the House-Grey gentlemen's agreement, by which Colonel House committed the United States, under certain contingencies, to enter the war.

Senator Vandenberg. What is the date of that agreement, Senator?

Senator Clark. You mean the House-Grey agreement?

Senator Vandenberg. Yes.

Senator Clark. I think it was February 22, 1916. The negotiations had been going on for some time, with exchange of interviews between Sir Edward Grey and Colonel House, and after Sir Edward Grey accepted this gentlemen's agreement in principle, he sent Colonel House over to try to line up the Allies of Great Britain.

Now, following this message from Colonel House, the *modus vivendi* was tacitly dropped. President Wilson was undoubtedly aware of the negotiations which Colonel House had in progress, and, following the protest of Colonel House, the matter seems to have just been dropped entirely, in spite of the thought and consideration that Secretary Lansing and the President had previously given it and in spite of their expressed convictions that the suggestion was eminently reasonable and just. So that the United States withdrew to its old position, a position which both Secretary Lansing and President Wilson had considered unreasonable and unjust, as was pointed out in the *modus vivendi*, in this agreement, but one which met with the approval of the Allies.

I offer as committee exhibit 22 a draft letter from Secretary Lansing to Sir Cecil Spring-Rice, British Ambassador, which was submitted to the President for his approval, after the receipt of Colonel House's cablegram. Here is the draft which was submitted to the President by the Secretary of State [reading]:

> My Dear Mr. Ambassador: I have received your courteous letter of the 23d instant and given careful consideration to the memorandum enclosed relating to proposal for an agreement to disarm merchant vessels by the Entente Powers, which I unofficially submitted to you in my letter of January 18, 1916.
>
> "The proposal was made with a humane purpose of removing the principle reason given by the German and Austro-Hungarian Governments for the failure of their submarines to comply strictly with the rules of naval warfare and intercepting the merchant vessels of their enemies on the high seas, a practice which has resulted in an appalling loss of life among the passengers and crews of vessels which have been attacked without warning.
>
> Believing an arrangement, such as I have the honor to propose, would have resulted in the discontinuance by Germany and Austria-Hungary of a method of attack on merchant vessels which puts in jeopardy the lives of hundreds of men, women, and children of neutral as well as belligerent nationality, I cannot but regret that the governments of the Entente Powers (have rejected[1]) could not see their way to accede to the proposal (and have declared their unwillingness to agree to refrain from the use of armament in protecting their property on the high seas[1]).
>
> The Entente Governments having, however, reached a decision to decline the proposed arrangement, it becomes my duty to accept their decision as final (although I can assure Your Excellency that I do so with the greatest reluctance and with great apprehension for the future[1]), and in the spirit in which they have made it.

This was the draft submitted to the President, to which the President replied on March 30, 1916.

> My Dear Secretary: There are several reasons why I think it would not be wise to send a reply of exactly this sort to these governments; but it would be very unsatisfactory to set them forth in a letter. I would like the pleasure of an early conference with you, on this and one or two other pending matters. No doubt we can agree upon a time when I see you at the meeting of the Cabinet tomorrow.

To which Mr. Lansing replied on April 3, 1916—this is not a reply, but on April 3 Mr. Lansing wrote the President as follows [reading]:

> My Dear Mr. President: I enclose a proposed letter in reply to the rejection of our proposal of January 18, relative to the disarmament of merchant vessels.
>
> I have already sent you a draft of a letter on this subject, and in the enclosed I have sought to meet your views on the previous draft.

Which apparently was the end of any suggestion on the part of the United States trying to end the submarine warfare in that way.

(The letters referred to were marked "Exhibit No. 2525" and are included in the appendix on p. 8480.)

Senator Clark. To sum up, in his war memoirs, Mr. Lansing has made some rather revealing statements concerning his attempt to make submarine warfare more humane. At page 110 of Secretary Lansing's book I quote:

> As I review the record of submarine warfare subsequent to March 1, 1916, I am more than ever convinced that the decision of the allied governments to decline to enter into the proposed arrangement was unwise from the humani-

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[1] Scratched out.

> tarian point of view and resulted in the sacrifice of hundreds of lives which might otherwise have been spared. It seemed to me at the time that they lost a great opportunity, because, if the Germans performed their part of the modus, the lives of crews and passengers on commercial vessels of the Allies and neutrals would not have been in constant danger from surprise attacks by submarines. * * * However, with the short-sightedness which it is hard to comprehend, and with a stubborness in insisting on neutral rights which were in their exercise open to possible question in view of the new conditions which prevailed, the British rejected the modus vivendi proposed by this Government, and the attempt to lessen the certainty of future horrors failed. The British Government in refusing to consider any deviation from the strict letter of the law even by agreement, was not only blind to the strategic advantage to be gained but was utterly inconsistent in its own practice, for the British naval authorities had violated more rules of international law than the Germans, though their violations were not attended by such dreadful results. For a year and a half we had made protest after protest to London because of the illegal practices of the British authorities in their treatment of American commerce and in their disregard of American rights on the high seas, and these controversies were in progress at the very time that the proposal of the United States in regard to submarine warfare was rejected.

TRAVEL ON ARMED BELLIGERENT VESSELS

Senator CLARK. Now, of course, very closely linked to the armed merchantmen's issue was the problem of Americans traveling on armed belligerent vessels, of Americans traveling on belligerent vessels carrying contraband of war.

In a memorandum of July 16, 1915, Cone Johnson, the Solicitor of the Department of State, pointed out that it was hardly correct to insist that neutrals possess the unlimited right to travel on merchant ships of belligerents carrying contraband and munitions of war.

I will quote some paragraphs from this memorandum and insert the whole memorandum in the record [reading from "Exhibit No. 2526"]:

> It is hardly correct to say that the neutral has the right, unlimited, of traveling on merchant ships of belligerents carrying contraband and munitions of war. A neutral does not have the right to afford, by his presence, protection to such a ship or its cargo, as we see from the admitted principle by which he is required to abandon the ship when it is overtaken by the enemy—if afforded opportunity to do so with reasonable safety; his right consists in the opportunity to leave the ship in safety before it is sunk. His presence affords no legal protection to the ship or its cargo.

A little further down the memorandum states [reading]:

> Is it of the essence of the right of an American citizen to travel in European waters that he be allowed to take passage on any and all of the ships of the belligerents, whatever may be their cargo or destination? I hardly think so. If abundant facilities are furnished for the safe conveyance of our people in European waters within the zone of hostilities, it seems to me there would be no ground for complaint on the part of any American citizens who might prefer a ship of the enemy carrying munitions of war in the zone of hostilities.

I offer committee exhibit 23, being the opinion of Solicitor Johnson.

(The document referred to was marked "Exhibit No. 2526" and is included in the appendix on p. 8481.)

Senator CLARK. President Wilson always maintained the position, with respect to our relations with Germany, that we could do nothing to surrender or compromise in any way the rights of the United States or its citizens.

However, the Congress of the United Sates felt quite differently about such a defense of American rights.

A large group in Congress wondered whether the desire of a comparatively few Americans to travel on belligerent ships through war zones should be permitted to risk the involvment of the United States in a bloody war. Congressional disturbance with regard to the United States relations with the belligerents is reflected in a letter from Secretary Lansing to President Wilson of December 21, 1915, which I will offer as committee exhibit 24.

(The document referred to was marked "Exhibit No. 2527 and is included in the appendix on p. 8483.)

The CHAIRMAN. Senator Clark, will you permit an interruption at this time?

Senator CLARK. Yes, sir.

The CHAIRMAN. Has the House-Grey agreement been offered for the record.

Senator CLARK. Not yet.

The CHAIRMAN. It will be during the day?

Senator CLARK. I do not know whether we will get to it during the day.

The CHAIRMAN. It will be offered, however?

Senator CLARK. We will put it in now, if you like.

The CHAIRMAN. Is there any objection to its being offered?

Senator CLARK. Not at all.

(The document referred to was marked "Exhibit No. 2528" and is included in the appendix on p. 8483.)

Senator CLARK. I will read a portion of this letter from Secretary Lansing to President Wilson, dated December 21, 1915 [reading from "Exhibit No. 2527"]:

> MY DEAR MR. PRESIDENT: I had a long conversation this afternoon with Senator Stone in regard to our relations with the belligerent countries, and I am disturbed at his attitude. He clearly indicated after we had talked a while that he thought that we were bearing too severely upon the Teutonic Allies and were not pressing Great Britain as strongly as we should in insisting upon observance of our trade rights. When I suggested that loss of life seemed to me to require more drastic treatment than loss of property, he replied that they both involved rights. I said to him that the right of life was an inherent right, the loss of which could never be indemnified, but that the right of property was a legal right, which could be fully remedied by an indemnity. I could see, however, that this in no way satisfied him, for he then referred to German babies dying because Great Britain would not allow us to send them condensed milk, and followed it up with dyes, potash, etc., etc.

A little further down in the letter he states [reading]:

> I hope that you will find it possible as soon as you return to Washington to ask Senator Stone to come and see you and see if something cannot be done to change his attitude, as it will otherwise make the situation one which will be hard to handle. I do not think the case one which permits of much delay.

The CHAIRMAN. Senator Clark, this note by the President speaks of Senator Stone's attitude being a rather distressing and alarming one, and he suggests that his attitude may come from other quarters than the Senator's own personal thinking. This letter was dated December 24, 1915. What is the relationship of that date to the date of Mr. Davison's communication or cable, insinuating as much that perhaps——

Mr. WHITNEY. It is nearly a year later.

The CHAIRMAN (continuing). Senator Stone was not really speaking his own mind.

Mr. WHITNEY. This is December 24, 1915, and Mr. Davison's cable was January 1915.

The CHAIRMAN. Very well.

Senator CLARK. The letter of the President under date of December 24, 1915, is offered as committee exhibit 25.

(The document referred to was marked "Exhibit No. 2529" and is included in the appendix on p. 8484.)

Senator CLARK. At about this time a tremendously powerful movement in favor of warning American citizens against taking passage on these belligerent ships developed in both Houses of Congress, based on the assumption that if Americans did not insist on traveling on belligerent ships in the war zone "they would not be drowned and the submarine dispute with Germany would lapse", as Colonel House said.

Senator Gore and Representative McLemore, in the House, introduced resolutions in February of 1916 designed to warn American citizens against traveling on armed belligerent vessels, and a very ardent battle was waged in Congress over those resolutions.

It was at that time, as you will recall again, that Colonel House was just completing the negotiation of the House-Grey agreement. In fact, that agreement was concluded, such as it was, during the period of greatest agitation for the Gore-McLemore resolution.

The Lansing appointment books in the Library of Congress contain this very significant entry on February 25, 1916 [reading]:

> Monday night many Members of the House were informed that the President desired war with Germany. This followed an interview between the President, Senators Stone and Kern, and Representative Flood.

Representative Flood was chairman of the Foreign Relations Committee of the House, and Senator Stone was chairman of the Foreign Relations Committee of the Senate, and Senator Kern, of the Finance Committee of the Senate [continuing reading]:

> On Tuesday the House was seething. Wednesday and Thursday it was the same. Opposition to war developed considerable strength. Thursday night the President sent a letter to Senator Stone. Friday the conditions were less hysterical.

President Wilson evidently realized that he must deal a death blow to the Gore-McLemore movement and the powerful sentiment which it represented. So that under date of February 24, 1916, he wrote Senator Stone a letter in which he pointed out that the honor and self-respect of the Nation would not permit any abridgement or denial of American rights.

That letter will also be included in the record.

This assertion of American rights apparently did not apply to American rights, that is, freedom of the seas or the rights of trade, which the British had so insistently disregarded, concerning which this Government had mildly and deliberately, according to Secretary Lansing's statement, which I just read, protested, but in respect to which it actually contented itself with reserving its rights in the matter.

To have warned Americans against traveling on armed belligerent vessels in order thereby to lessen, perhaps remove, the danger of war on the United States from the German submarine menace would not have been any more fundamental temporary suspension of American rights, that is, the right to travel freely, than was the accepted suspension of American rights of trade which the British flagrantly violated on the grounds of the exigencies of war.

However, Colonel House wrote to President Wilson as early as May 25, 1915, as follows [reading]:

> * * * but I feel that our position with the Allies is somewhat different, for we are bound up more or less in their success.

A letter of February 29, 1916, from Ambassador Gerard, in Berlin, to Secretary Lansing and Colonel House, expresses succinctly the German reaction to the United States' attitude on these two important issues—armed merchantmen and warning Americans to keep off armed belligerent ships.

I will insert the whole letter in the record. It is only necessary to read this paragraph [reading]:

> I think Germany was about to offer to sink no merchant ships without notice and putting crews and so forth in safety, if England would disarm merchant ships; but now, since the President's letter to Stone, both the Chancellor and von Jagow say they are convinced that America has a secret understanding with England and that nothing can be arranged.

And as we know now, the Chancellor and von Jagow were absolutely right in assuming that there had been a secret agreement with England, which was comprehended in the House-Grey agreement.

(The document referred to was marked "Exhibit No. 2530" and is included in the appendix on p. 8484.)

The CHAIRMAN. Unless the witnesses are wanting to offer any comment at this particular time, the Committee will recess until 10 o'clock tomorrow morning, when it will continue with this study of these State Department documents. Until 10 o'clock tomorrow morning, then, the committee is in recess.

(Thereupon, at 4:12 p. m., the Committee took a recess until 10 a. m. of the following day, Wednesday, Jan. 15, 1936.)

APPENDIX

EXHIBIT NO. 2279

[N. Y. American, August 10, 1915]

McADOO CONFERS WITH FINANCIERS

WALL STREET DEEPLY INTERESTED IN REPORTS THAT FUNDS ARE SOUGHT TO BUILD UP MEXICO

Wall Street was deeply interested yesterday in the visit to the financial district of Secretary McAdoo and W. P. G. Harding, of the Federal Reserve Board, who, it was said, were here to confer with local bankers on the financing of a new government in Mexico.

Secretary McAdoo made his headquarters at the Sub-Treasury, where he conferred with Henry P. Davison, of J. P. Morgan & Co. Although the two conferred for an hour, Mr. Davison would not throw any light on the subject discussed.

Asked about the report that he was here to confer with bankers regarding the financing of a new government in Mexico, Secretary McAdoo said that was untrue. He declared he was here on Department matters which have no significance.

Mr. Harding said he was here on routine matters.

Local bankers declared yesterday that they would not advance any money to Mexico unless every cent was guaranteed by the United States Government.

Secretary McAdoo said he did not expect any difficulty in the financing, collection, and transportation of crops this year, and that everything that could be done in this direction was suggested in the recent letters sent out by the Federal Reserve Board to the different Federal Reserve Banks telling them to take time by the forelock.

Secretary McAdoo said reports received from the Federal Reserve Board and the Treasury Department indicated that trade is doing well all over the country.

EXHIBIT NO. 2280

[N. Y. Telegram, August 9, 1915]

McADOO CONFERS WITH "STREET'S" LEADING BANKERS

SECRETARY OF TREASURY MEETS WALL STREET MEN AT THE SUB-TREASURY—OPTIMISTIC OVER FUTURE BUSINESS CONDITIONS

Speculation is rife in Wall Street today over the purpose of the flying trip made from Washington here by Mr. William McAdoo, Secretary of the Treasury. Mr. McAdoo was in the financial district for several hours and saw several of the important bankers. The reported excessive issue of Federal Reserve notes and the Mexican situation are mentioned as possible causes.

One of the principal financiers with whom he was in conference was Henry P. Davison, of the firm of J. P. Morgan & Co. Mr. McAdoo invited Mr. Davison to call on him at the Sub-Treasury. The two were in consultation for more than one hour. After leaving the Sub-Treasury Mr. Davison declined to say a word about his talk with the Secretary.

In some financial circles it was believed Mr. McAdoo had been discussing with bankers the action of the Federal Reserve banks, but particularly that of New York, in issuing Federal Reserve notes in amounts entirely out of proportion to the amount of commercial paper they held, and consequently accumulating gold at what some financiers declare "inordinate rates."

Strength was lent to that belief by the fact that Benjamin Strong, Jr., governor of the New York Federal Reserve Bank, and W. P. G. Harding, of the Federal Reserve Board, were two of the first men to confer with the Secretary.

In other quarters, however, it was believed Mr. McAdoo conferred with bankers here on the subject of financing any steps the Government of the United States might take with respect to Mexico.

In the office of Martin Vogel, head of the Sub-Treasury, Mr. McAdoo said the object of his visit was "special departmental matters." He denied he had come to New York for the purpose of sounding bankers in connection with any financing which might be necessary in respect to Mexico.

The Secretary was very optimistic over the outlook for business all over the United States.

So far as Mexico is concerned, bankers here said, none would lend a cent to Mexico or have anything to do with Mexico financing unless under a guarantee by the United States.

Exhibit No. 2281

[The New York Times, Thursday, July 29, 1915]

Financial Markets

INDUSTRIALS AGAIN TAKE LEADERSHIP IN BROADER MARKET—STEEL TRADE'S CHANGE

The railroad stocks did not continue far yesterday their advance of Tuesday afternoon—some of them even fell back—but that noteworthy rise in these shares was not without its favorable effect upon market sentiment yesterday. Of even more effect was the very favorable showing made in the quarterly statement of the Steel Corporation, whose market effect was reserved until yesterday. The statement was taken as proving more than past improvement in the steel trade. It was taken as proof of oncoming prosperity in that industry and its effect thus extended not alone to the stock of the company directly concerned, but to other steel shares as well. The Steel Corporation's earnings statement was effectively supplemented to this end by the weekly summaries of conditions by the oragns of the steel trade.

The demand for the finished product has worked all the way down and is now manifesting itself strongly in the demand for pig iron for future delivery; prices are advancing, and in some instances difficulty is being encountered in supplying the more pressing demands which are reaching the trade. Incidentally, more light is thrown on the extent to which war orders are responsible for this change in condition. The Iron Age points out that it is now estimated that between 20 and 25 per cent of the current output of the leading steel companies consists of war materials—the range of products is wide, for modern war consumes almost as wide a variety of things as enters into modern industry.

Trading was more active than on any day since May 10 and for the first time since that day the dealings rose to a million shares. This volume was attained both by an increase in the transactions in the stocks previously dealt in and by an increase in the number of issues sharing in the day's market. The industrials far outran the railroads in strength and in activity, but activity in the former was not confined to the war stocks unless all steel stocks be looked upon as war stocks in view of the large demands which the war makes on the products of the steel industry. But the steel trade has not been returning to prosperity solely on the basis of orders received from the European belligerents. Accepting the larger estimate of 25 per cent as the proportion of steel trade output which represents war orders and deducting that from the 87 per cent of capacity at which the Steel Corporation blast furnaces are operating, there is left an output far in excess of the output for all purposes at the beginning of this year. Home trade is improving along with the trade which comes to us from the nations at war.

The further expansion in our steel export business comes at the season when agriculture begins afresh to contribute material for export, and, as by way of fitting reminder of the enormous excess of exports which agricultural exports were instrumental in bringing about last fall, the excess of exports over imports for the latest week reported exceeds by far the figures of recent weeks. It is a movement which will accentuate the need of Europe's safeguarding her exchange rates with this country and specifically the need of England's entering into some credit arrangement with this market. This is a topic which is now receiving very earnest consideration in London, and one which is likely before very long to be dealt with practically. England may succeed in gathering together a large amount of American securities to be pledged for a loan here. In no other way probably could England borrow as readily in this market.

The market for railroad stocks showed a good deal of absorbing power notwithstanding the abruptness of the advance the previous afternoon and notwithstanding the absence from the morning's news of any confirmation of the previous day's rumor that the Western roads were about to be granted an increase in freight rates. With very little loss in prices more stock was taken yesterday in some of the railroad issues than had figured in the dealings which brought about the advances of three to five points in Tuesday afternoon's trading.

EXHIBIT NO. 2282

[N. Y. Times 7/19/15]

WAR LOAN PAYMENTS DUE

LONDON EXPECTS $1,000,000,000 TO BE TURNED OVER ON TUESDAY

[Special cable to the New York Times]

LONDON, July 18.—Chancellor McKenna's announcement that £570,000,000 had been subscribed to the big war loan through the Bank of England exceeded conservative expectations. In addition, £24,000,000 has been subscribed so far through post offices, where lists are still kept open for small amounts. All of this means new money, as the conversion of older loans will not begin until August.

The success of the loan helped the markets early in the week, but dullness followed later, owing to the rise in money rates, which was due to the enormous payments to be made to the Government on account of the war loan on Tuesday. The 10 percent payment due then requires £57,000,000, but with the amounts which will be paid up in full under the discount privilege it is expected that the day's payments may reach £200,000,000. Calling of loans by the banks on this expectation drove the discount rate to 5 percent. Bill brokers have been borrowing in substantial amount at the Bank of England.

No real dislocation of our finances is likely on July 20, but with dealings in the new war loan still to be begun, the stock exchange became nervous over the uncertainty. Selling of American issues was small all week, but the new loan has absorbed nearly all of the money supply, so that it is difficult to see at this time whence buyers for any securities are to come.

The weakness in New York exchange on London creates general uneasiness here, and any action to relieve that situation would be welcomed by most of the bankers.

EXHIBIT NO. 2283

[N. Y. Times, 8/13/15]

NEW BRITISH GOLD NO AID TO EXCHANGE

DEMAND STERLING DROPS TO $4.72¾, THE LOWEST PRICE EVER RECORDED HERE—SITUATION DISTURBS BANKS—MOST SERIOUS PROBLEM CONNECTED WITH EXPORTS TO THE ALLIES—CREDIT SCHEME SOUGHT

The arrival of nearly $20,000,000 in gold besides British-owned American securities of an estimated value of more than $30,000,000 had no apparent effect toward checking the downward movement of sterling exchange, which yesterday went to a low level never seen before in modern times. Demand sterling, which sells ordinarily at $4.865 for the pound, sold at $4.72¾. At this figure there is a loss of 2.8 percent on transactions settled by the buyer in demand sterling.

Yesterday's decline, according to international bankers, will be only a start on the downward movement if steps are not taken to provide for the settlement of obligations here through credit facilities rather than through exchange. The situation was disturbing to the banks and brought forward what was characterized as the most serious problem that confronts this country in connection with its enormous exports to the Allies. A suggestion that more gold might be brought here from London or South Africa was dismissed as a restorative of normal rates.

"We don't want gold", said an international banker who is taking an active part in negotiations with financiers in London and Paris. "The gold is of no use to us and might better stay in London. If our export trade is not to receive a serious check a way must soon be found to extend credit for the settlement of the bills that are falling due.

"The banks in this country have unprecedented cash reserves, which are not doing any good. What is needed is a credit arrangement under which this money can be paid out on behalf of foreign nations. Either through the sale here of foreign securities or the establishment of a credit, means must be provided for paying the war bills maturing in this country or it will become increasingly difficult to place additional orders."

It was learned yesterday that the securities received by J. P. Morgan & Co. from the Bank of England in connection with the gold, are American bonds, and that they are to be used as security for temporary advances. It was said that they were not a part of collateral for a large credit, but that they would be deposited with banks to secure the release of cash to meet bills. Whether further consignments of securities are sent depends entirely upon London.

On most of the war contracts, 20 percent or 25 percent of the price called for has been paid at the time of placing the orders. So far only a relatively small part of the munitions contracted for has been delivered, and the unsettlement caused by the preliminary advances has brought up the question of what may be expected to happen when the remaining 75 percent or 80 percent is called for. To date there are no unpaid items, the Allies having settled in cash for everything delivered.

There was a report which seemed to be borne out by facts yesterday that a large volume of war business has been held up by the refusal of manufacturers to take new orders calling for payment in notes running for a year or more, Russia has offered a large amount of new business on condition that the contractors accept bonds in payment, but little of this business has been taken. One industrial company has had under consideration for several days a big Russian order which was delayed by inability to reach an understanding as to payment.

It is regarded as entirely possible that Great Britain will eventually try out the investment market here with an offering of notes payable in New York in dollars, to secure investors against loss in exchange. Bond men said yesterday that the reception which such an issue would get could not be foretold, but that a maximum estimate of $100,000,000 should be placed upon the amount of such securities that could be absorbed in this market.

Until recently most financiers have taken the stand that the exchange problem is of no direct concern to the United States, and that Great Britain must find her own way to pay the obligations incurred here. Now it is recognized that the future industrial prosperity of this country depends upon cooperation which will make it possible for the Allies to finance their purchases without exhausting their supplies of gold. Large war orders for Italy are hanging fire pending action on that country's inquiry for a loan of $50,000,000.

EXHIBIT No. 2284

[The Chronicle, July 3, 1915, page 11.]

The sterling exchanges during the earlier part of the week showed complete demoralization in the absence of sustained buying power. On Monday, after a quiet day on Saturday, there was a decline of about 1¼ cents to the pound to a new low record of 4 75 15-16 for demand bills. This minimum was further reduced on Tuesday to 4 75⅞ and on Wednesday to 4 75¾, after which a rather steadier tone developed, due chiefly to buying by local bankers and by Canadian institutions. The weakness was all the more surprising in view of the conceded active selling of American securities by foreign holders that has followed the British requirements for funds to subscribe to the new war loan. On Saturday a shipment of $2,500,000 from Ottawa to New York was announced by J. P. Morgan & Co. No further announcements were made during the week. It is believed that the stock of the precious metal at Ottawa has been drawn down so severely that further large importations from that source are not probable. Indefinite reports of pending shipments direct from France are current. In the past, however, positive information of this character has been withheld until the metal has safely arrived. The transportation facilities for trans-Atlantic shipments of gold are limited and it will be a difficult matter to bring the metal forward in sufficient volume to correct the demoralization in exchanges in the event of that being considered by the British Government a solution of the problem.

The point has been reached, apparently, where recourse will have to be had to a definite form of credit to Great Britain by American bankers. E. F. Davies, Chairman of the Committee of English and Foreign Bankers on Exchange Problems, is quoted by a press dispatch as saying on Tuesday: "I consider the best way for American exchange to be righted will be by Americans subscribing liberally to the new war loan, exchange being at present something like 2% in favor of America on such an operation; or by Americans granting about $500,000,000 of credit to Great Britain. The former way is much the better one, but either is in the best interest of both countries, and America thereby would pay herself for her shipments to this country. Paris depends solely on London and any payments for munitions or food must be made through London." There seems slight expectation that the volume of American subscriptions to the British war loan will assume really important proportions unless some provision should be made in the terms of the offering to provide exemption from the British income tax. The subscriptions in a broad sense may be expected to be governed by the patriotism of British subjects here rather than by out-and-out business considerations.

Despite the arrangement of the loan based upon French holdings of American securities, exchange on Paris has still again reached a new low figure, both in New York and London. Sterling exchange in Paris has declined to 27.22½ francs, comparing with 26 36 francs a week ago. In New York checks on Paris closed at 5 68 francs, against 5 50 a week ago, while cable transfers finished at 5 67¼, against 5 49½; commercial sight on Paris, including three-day sight bills, finished at 5 70, against 5 51½. Bankers' checks on Berlin are quoted at 81⅛ and cable transfers at 81 3-16. Last week the corresponding figures were 81 13-16 and 81⅞, respectively. Swiss exchange finished at 5 44 for bankers' sight and 5 43½ for cables, against 5 35½ and 5 34½ last week. Italian lire at 6 16 for checks and 6 15 for cables, compare with last week's final figures of 5 98 and 5 97½. Bankers' checks on Amsterdam are 39 15-16, unchanged for the week, while bankers' cables are quoted at 40, against 40 plus 1-32 a week ago. Greek exchange is slightly firmer at 5 26 and 5 25 for checks and cables, respectively, against 5 27 and 5 26½ at the close of last week. Checks on Copenhagen are 26 35, against 26 33; on Sweden and Norway, 26 40, against 26 38 last week. Russian roubles closed 37¾@38 for checks, against 38¼@38½ a week ago.

Compared with Friday of last week, sterling exchange on Saturday was steady, with rates practically unchanged from the high of the previous day, at 4 77¼@4 77⅜ for demand, 4 78 3-16@4 78¼ for cable transfers and 4 74@4 74½ for sixty days. On Monday sterling suffered another sudden and severe break and demand bills again reached a new low level, namely 4 75 15-16—a decline of 1¼c.—with the high 4 77⅛; cable transfers ranged between 4 76 15-16@4 78 and sixty days 4 72¾@4 72⅞; this fresh demoralization was attributed largely to a heavy accumulation of bills over the week-end, together with a lack of demand, while the late rally was due to active buying by Canadian institutions. The foreign exchange market continued its downward swing on Tuesday, and after a fairly steady opening weakened and rates declined fractionally, to 4 75⅞@4 76⅛ for demand, 4 76⅞@4 77⅛ for cable transfers and 4 72½@4 72⅝ for sixty days. On Wednesday further weakness developed in the initial transactions—demand receding to 4 75¾—the lowest figure yet touched; later, however, liberal buying by an international banking concern and renewed foreign selling of Americans induced a sharp rallying movement and the range was 4 76¼@4 77½ for cable transfers, 4 75¾@4 76⅜ for demand and 4 72¼@4 73½ for sixty days. July 1 requirements having been satisfied, trading in exchange on Thursday was quiet and the opening weak, although before the close selling of American securities by Europeans caused a firm tone; demand was quoted at 4 76¼@4 76⅜, cable transfers 4 77 1-16@4 77¼; sixty days was unchanged at 4 72¼@4 72½. On Friday the market ruled in the main steady. Closing quotations were 4 72¼@4 72½ for sixty days, 4 76¼@4 76½ for demand and 4 77 3-16@4 77⅜ for cable transfers. Commercial on banks, nominal; documents for payment, nominal. Seven-day bills at 4 75⅛@4 75⅜. Cotton for payment, nominal; grain for payment, nominal.

[The Chronicle, August 14, 1915, page 483]

Once again this week has the sterling exchange market established a new low record, notwithstanding that the British Government has forwarded from London to Messrs. J. P. Morgan & Co., its financial agents in this country, a total of $19,534,200 in United States gold coin. The rate for demand bills on London has declined to the unexampled figure of 4 70½, which compares with 4 76⅛ @ 4 76¼, the closing price a week ago. The shipment in question, it may be stated, is to be followed by others, including substantial amounts from both South Africa and Australia; a total of $15,000,000 is understood to be already on the way from Australia to a Pacific port, of which $5,000,000 is due next week. The British Government not unnaturally is maintaining secrecy as to the movement of the metal while it is on the seas. In fact the importation of the $19,534,200 was not announced either in New York or London until it had safely arrived at Halifax. Accompanying the shipment was a considerable volume of securities estimated at something over $30,000,000, though there is excellent reason to believe that this figure is an overstatement. It is understood that the Bank of England has a gold reserve of about £20,000,000 at Cape Town. The inference in respect of the importation of securities is that they represent American bonds purchased by the British Treasury out of the proceeds of the war loan, and that the gold that already has come, and that which is to come, will in connection with these securities form the basis for the large English credit at this center, which, in the very nature of things, must soon be established unless a gold movement of extraordinary and also of unnecessary proportions is to take place to New York. While money rates in London are a shade easier this week, they remain attractive and indicate that the Bank of England still has the English money situation well under control. Meanwhile, however, the fact must be faced that the season is approaching when the favorable export balance which has already been established will most probably be increased by large shipments of grain and provisions, and that it is necessary to make preparations accordingly. There are some reports that the only hitch in establishing the English credit is a difference of opinion between England and American bankers as to some of the minor details. One point is the indisposition, it is reported, of London bankers to encourage the drawing of bills in dollars against the American credit. The Department of Commerce in its regular report of our foreign trade (through the 13 principal customs districts) shows an export balance for the week ending Aug. 7 of $13,945,455, the imports having amounted to $34,294,282 and the exports to $48,239,737. The current weakness in exchange is due to the pressure of bills. Cotton bills are making their appearance in substantial volume. One banker yesterday estimated that about $50,000,000 of bills on London are available in the market, and that large offerings also are available of bills on Paris and Rome. The close was demoralized with rates wholly nominal.

Exhibit No. 2285

[Copy]

Treasury Department,
Comptroller of the Currency,
Washington, September 29, 1915.

Mechanics and Metals National Bank,
New York, N. Y.

Sirs: Your telegram of even date reached this office this afternoon about four o'clock. I understand your inquiry to be whether national banks will be limited in taking Government loans by the provisions of section 5200, U. S. R. S., which limit the "total liabilities" to any national bank of "any person or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof" to one-tenth of the capital and surplus of the bank—such liabilities in no event to exceed thirty percent of the capital stock of the bank—the aforesaid limitation, however, not to apply to discounts of bills of exchange drawn in good faith against actually existing values and the discount of commercial or business paper actually owned by the person negotiating the same.

In reply you are informed that this office has been advised by counsel that governments are not "corporations" or "persons" within the meaning of section 5200, and that investments made by national banking associations in Government securities, such as Government bonds, in excess of ten percent of the unimpaired capital and surplus of the association, would not be in violation of that section.

Respectfully,

(Signed) Jno. Skelton Williams,
Comptroller.

Exhibit No. 2286

[Copy]

September 29, 1915.

Hon. John Skelton Williams,
Comptroller of the Currency, Washington, D. C.

Sir: I hereby confirm the telegram just sent to you for our enlightenment, as follows:

"It is our understanding that there is no legal limitation on the right of a national bank to invest in loans of governments. Is this correct?"

This telegram was prompted by the prospective consideration by our executive committee at its meeting this afternoon of our participation in the loan under consideration to the English and French Governments, and I might add, by our desire to be in perfect harmony with your Department and at the same time be as helpful to the general business of this country as is prudent.

Anticipating your early reply, I am,

Yours truly,

——— ———, *Vice-President.*

McH–M

Exhibit No. 2287

New York, *September 29, 1915.*

ANGLO-FRENCH LOAN

Things are boiling on the big credit loan to England and France. At a meeting yesterday of representatives of about forty distributing houses at Morgan's office, Mr. Forbes was appointed chairman of a committee to work out the details of both the underwriting and the public offering.

After exhaustive discussions of the various suggestions that were made the committee reported back to the issuing houses at a meeting that was held at one o'clock to-day recommending that everybody be given an opportunity to participate in the underwriting. By that is meant private investors as well as corporations, dealers, banks, and other institutions.

The commissioners stipulated particularly that the bonds should not be sold to anybody at less than 98 and interest, yielding just under 5½%. And to fix in the minds of the public the price of 98 it has been decided to allow withdrawals by syndicate participants at 98, less a rebate after the syndicate is closed of 1¾%. The syndicate members so withdrawing will be relieved of any further liability. The underwriting price is 96, but ¼% is taken off of the rebate on withdrawals to cover the expenses of advertising, etc. It is possible that it may not be quite as much as this, and if not those who withdraw may perhaps receive a little more than 1¾%.

What we want to do especially is to encourage withdrawals. Bonds withdrawn must be held for sixty days—the life of the syndicate. If any withdrawn bonds come back into the market within sixty days the numbers will be traced and the bonds sent back to the seller. This will be included in the syndicate agreement.

The syndicate managers have the right to repurchase in support of the market up to 10% of the bonds which are not withdrawn. It is expected that at least half of the issue will be withdrawn for investment.

You will at once see that it is distinctly for the best interests of the flotation to make the underwriting a great big success. It must be quick and snappy, and the more withdrawals the better. Then when the remainder of the issue is offered for subscription at 98, dealers and banks everywhere can jump in and push the final distribution with great enthusiasm. As Mr. Morgan said to-day, this loan is going to be a tremendous success, and a whole lot of people will wake up and find themselves about eight days too late.

Just think of an interest return of 5⅞% to an institution or investor who goes into the syndicate and withdraws his bonds. Why, nothing like it was ever heard of before—a five-year obligation of the two greatest governments in the world—next to the United States—on close to a 6% basis.

Confidentially, one withdrawn bond subscription was turned in to-day for $35,000,000. We are getting requests for participations from all directions. Every clearing house bank in Pittsburgh has subscribed, and enthusiasm is at a high pitch in Philadelphia, Baltimore, Boston, and all the other financial centers of the East as well as here in New York.

To-night a wire is going to the most important banks in the Middle West and out on the Pacific coast over signatures like Mr. Wiggins, president of the Chase National; Mr. Prosser, president of the Bankers Trust; Mr. Sabin, president of the Guaranty; and Mr. Vanderlip, president of the National City, strongly recommending the loan both as to security and price and asking these few carefully chosen banks in each city to form a group and take charge of the distribution in their locality. As the telegram reads—"We are forming a countrywide syndicate, etc."

It's too late to attempt to give you all the little details to-night. Call us up in the morning and ask any questions that are on your mind. As you, of course, know the bonds will be payable in dollars in New York, and there will be various denominations from $100 up. Even without the conversion privilege the loan would be by all odds the most attractive investment in the market, but when you take into consideration the fact that the holder of these bonds has a five-year "call" on a 15–25-year 4½% bond of Great Britain and France, the writer personally doesn't see how any of your clients who are not prejudiced can fail to take advantage of this wonderful opportunity.

Call us up in the morning and talk it over; we will be right here waiting to hear from you.

C & B. E. B. S.

Exhibit No. 2288

New York, *Sept. 30, 1915.*

Daily letter, C. & B.

Requests for an interest in the underwriting of the Anglo-French five per cent five-year external gold loan of 1915 have poured in on the syndicate managers from every direction to-day and the subscriptions now aggregate a very large proportion of the issue. Just to give you an idea of how they are going we can mention in a semi-confidential way that one large industrial concern subscribed for $50,000,000 of the bonds to be withdrawn for investment; another industrial concern $20,000,000; one of the big banks here in New York turned in a subscription for one individual customer amounting to $3,000,000; one of the trust companies reported an individual subscription of $2,000,000; Boston has already turned in more than $25,000,000; Pittsburgh $15,000,000, and the Twin Cities—St. Paul and Minneapolis—have asked for $10,000,000, although it was not expected that they would take more than $2,000,000. We turned in a subscription for $50,000,000 and N. W. Harris & Co., Boston about $2,000,000.

We hear that large subscriptions are coming in from sections that had previously indicated an attitude of lukewarmness toward the loan, and just as a little sidelight we might mention that Robert Lee has turned in an application from a bank cashier who is about as thoroughly German as anyone this side of the Atlantic; and we might add further that this particular man thinks he does not like us very well—in other words, we have an application from a German who is not influenced by any partiality toward us and therefore must be convinced that the invitation to come into the syndicate is an opportunity that he cannot afford to pass by.

Here are a few details by the issue—bonds are to be dated Oct. 1st; interest payable semi-annually; underwriters may pay in full or on about Oct. 15th or in instalments, the details to be advised later; when the public offering is made bonds sold to investors may, if desired, be paid for in instalments, the first payment to be made around November 1st.

It is mighty interesting and in every way desirable to be identified in a prominent way with the handling of what is by far the most important financing ever done in this country. The opportunity to invite our customers to share in the underwritings on the same terms as the most inside insider is valuable in many ways and will strengthen our relations with some extremely important investors.

Some one has asked to whom bonds will be sold on the public offering if everyone is invited to enter into the syndicate and that prompts the suggestion that generally speaking there is no occasion to approach small investors in connection with the information of the syndicate. Let's save a few of them to buy the bonds on the public sale.

W. E. B.

P. S. Here is the latest word from Morgan's office: Mr. Anderson says they have eight men working on the tabulation of subscriptions and as nearly as they can now estimate the total is an excess of $300,000,000. Among the subscriptions are:

1 for $50,000,000.
1 for $20,000,000.
1 for $13,000,000.
1 for $10,000,000.
1 for $6,000,000.
6 for $5,000,000.
1 for $2,500,000.

and a huge pile of smaller ones.

W. E. B.

EXHIBIT No. 2289

ADDRESSES DELIVERED TO THE REPRESENTATIVES OF BOND HOUSES ASSEMBLED IN THE ASTOR GALLERY OF THE WALDORF ASTORIA

NEW YORK CITY, *October 8, 1915.*

The meeting was called to order by Mr. J. P. Morgan at 4:30 p. m.

Mr. MORGAN. I am going to speak sitting down, if you gentlemen don't mind, it is easier and less formal.

What we are here for today is to find out about these bonds. You are the gentlemen who have got to sell them, and we want you to know what we know about them.

The other day we were talking this matter over and somebody said to me, "You may know something about these bonds, but there is not one of us who knows anything about them at all." So I thought we had better get together and talk about them.

It is such a simple story it is rather difficult to tell at length.

The bond is a perfectly directly straightforward obligation of the two greatest countries, financially, that the world has ever known. There are two or three questions that come up about it.

In the first place, the safety of it. Now, my answer as to the safety—perhaps before we begin on the safety we had better begin on the neutrality of it. This bond, in my opinion, is not a war bond. It is giving America's customers time; the best customers that America has and has had for years, ask for time to pay what they are buying here. They are buying much more than they usually do, and they are selling much less than they usually do. It seems to me that a country which is starting out to be a world power in trade, must learn that it must give its customers time, wisely, properly, when their credit deserves it, as a bank has to do, and, therefore, this is not a pro-ally affair or an anti-German affair, or anything else; it is a pro-American affair, and that only.

As to the safety of the bond, the revenues of Great Britain and France, the taxation revenues this year are about two thousand million dollars for England, and something about a thousand million dollars for France—I haven't got those figures.

The bond being the only external debt of those two countries is substantially, as is always understood with external debts in countries that have them, the first charge on the revenues of the country. It is absolutely imperative for the country to make good the external bonds, no matter what arrangements it has to make as to internal affairs, because it may want to come again, and without incurring the worst form of bankruptcy and disgrace, it cannot abandon its external debts; not that there is any thought of doing so or of coming again.

The total income of England and France are figures which we are trying to get which we will contribute to you as soon as we do get them.

The total income of the people of Great Britain is supposed to be about two thousand four hundred million pounds a year, that is about twelve billion dollars, and of that they could collect by taxation a considerable part, so it looks like pretty good security for a loan of five hundred million dollars, the interest on this loan being only twenty-five million dollars a year.

Of course, it is absurd to talk about national incomes and taxation of a large part of them and all that sort of thing—all I want to show is that the countries are real things and very big earning properties themselves, and that you are getting what amounts to a first charge on the income of them.

Now, the next thing is the question of the price. When we came to these negotations, the Commission, in discussing the matter, as they did with us with great frankness, began by stating a certain few things that they could not do. Among other things they did not think they could do was to pay over five percent for the money, and the question was how much could they get at that. Of course, we did not know how much they could get at that, but we found that they wanted to secure five hundred millions of dollars, and finally, after a couple of weeks of conversation, we told them that we believed the bond would be good to go to a syndicate at 96 and the public at 98.

The syndicate is made, that is out of the way. The public, at 98, gets the bond, which is a five-year bond, on very nearly a five and one-half percent basis.

They realized that sentiment would not move people to buy any such quantity of bonds as that, that they had to meet the market conditions in this country, or they could not get anything, and they finally came to the point that 98 to the public would be satisfactory to them.

Now, no such yield has ever been made on government bonds since the Civil War, except the French bond put out in 1871, only to the extent of ten million pounds, merely to give the new government a chance to start. For that they paid more. English and French government bonds have been sold on two and three-quarters and two and a half and two percent basis for many years. This is five and one-half percent.

Of course, the countries are at war, and they had to compete with good American bonds at five percent to make it attractive. The more I hear of it, the more I am convinced that before many months the American public is going to realize that this is a premier security with a very attractive return. Now, there is another feature of it [the Anglo-French loan], and that is the convertible feature. Five years from now this war, please God, will be over and well over. Whichever side has won, these bonds are good; nobody is going to extinguish any great nation. The reconstruction period may be a little prolonged, but on the whole a British-French four and a half percent bond with ten years to run, at the end of these five years, is going to be a premier security, and that is going to be at a premium, unless something very strange happens to the world. If the French and British credit is back in their own countries at a three and a half percent basis, and it suits those countries to buy these bonds, there ought to be a premium for them. It looks to me that is the feature that ought to be talked to people as the selling feature.

Now, the question is: Is the country ready for a foreign loan? You, of course, know about that better than I do. I believe it is or in a short time will be. Trade is spreading out, there is an enormous amount of selling of our materials that has been done, and there is a great amount of cash in the country to be invested. The investible surplus is much larger than usual, and with all that before us, I believe that the people will be glad for a chance to make a variety in their form of investments; that they will feel that they have got this much in railroads and this much in city bonds and American securities of other kinds, and perhaps something outside the country, which is based on a perfectly good credit and pays a handsome return will be very desirable to mix in with some of the other securities.

The security being good I believe the bond is safe and right and desirable.

I don't want to bore you by sitting talking about this thing—I don't know how to make a speech—but I want Mr. Morrow to tell you a little bit more. He has got more of the points in his mind in regard to the thing than I have. I am going to ask him to talk to you about it. (Applause.)

Mr. Morrow. Mr. Morgan and gentlemen! I am sure that Mr. Morgan's statement that I have more of the points in my mind than Mr. Morgan is not accurate, and I do not feel prepared to make a speech. I am sure that all of you are so familiar with this general subject that you would have little patience with speech-making. When we break up into a social meeting—and I gather that the primary purpose of this meeting is to get together in a social meeting all of us who are going to be responsible for this great piece of work—we want to have a full interchange of views and learn something from each other.

In going over the various statistics that have been gathered together about the Anglo-French loan by the various houses which have been studying the subject—some of which statistics have been put in the envelopes that were handed to you as you came in the door—I have been very much impressed by one sheet, the sheet which shows the range of prices, and range of yield, of British consols and French rentes, during practically a period of one hundred years.

One hundred years is a very long period commercially. One hundred years in this country has witnessed practically all our railroad development. It covers the period during which all of our railroad bonds have been created. It covers the reorganization periods that have come at stated intervals. Much less than one hundred years, in fact, a quarter of a century, will cover practically the period of electrical development. During that time the electrical seucrities have become popular and have been sold to investors and now are looked upon as among the most conservative investments that can be made. This hundred years which has witnessed the development of two new industries, two new lines of investment for capital, this period is but a very brief span in the life of a nation. That one hundred years is a very small part of the life of France or the life of England. By looking at the range of the price of consols and of rentes during the last hundred years, I think we get a little away from the point of view that we are apt to have from reading the headlines in the daily papers.

To get a fair perspective on any security ,or any investment, or anything else important in the world, a man should lift himself a little above the impressions he gets at the moment, and try to fasten his mind upon those things that have been permanent. After all, the only way we can do that is by recalling history to ourselves. We are all saying now that this war is unheard of in the history of the world, and in a sense it is, but men have said that before during various other wars. We are all apt, in the midst of a panic, to think there has never been anything but a panic. Likewise, in times of prosperity, we are apt to think that times are always going to be prosperous and that there is never going to be a panic again. The wise man is he who is not too much affected by his momentary environment; the farseeing man is he who keep his mind poised in times of excitement.

Take England, for instance, and take this table of the price of consols, and see how truly it marks the current history of the country in other lines.

The Napoleonic wars which ended in 1815 ended a period of twenty-five years in which all the countries of Europe were torn, in which dynasties and empires were changed and maps made over. At that time—a time that cannot be compared in disorganization to the present day—at that time the British consol, already an old security, was selling on a basis, when it got at its lowest price, to yield 5.97 to the investor.

Come down to the period of the Crimean War. At that time the people of England looked upon that war with its mistakes as one of the darkest periods in English history. We have heard a great deal of the terrible loss of life among British officers this year. But you will recall that John Bright, during the Crimean War, used the expression that the Angel of Death was hovering over England, and that you could almost hear the beating of its wings. At that time, shells were thrown into Sebastopol at a rate comparable to the shell expenditure to-day. I believe the figures are that over a million and a half shells were poured into Sebastopol in the last thirty days of the siege. If you consider how much more expensive shells were at that time than they are to-day, the scale of expenditure must have been then staggering to the people who had to bear it. Yet British consols never sold on a basis that gave a higher yield than about five percent. Come down to the period of the Boer War, when there was a tremendous increase in the British debt. When you trace the history of governments which have gone on through these changes, through these periods of heavy expense and struggle and try to fasten your mind upon how a government security goes on, I think you get a little better picture of the relation of the government bond to a railroad bond or an electric bond or a mortgage on real estate. Changing industries, changing inventions, in one single century have made a startling difference in commercial investments. What a small difference it has made in the fundamental position of government securities!

Is this not a new thought to us all? The French peasant has bought bonds of foreign governments for a long time. For the simple reason that the people of old and wealthy countries, like France and England, could not find investment at home for their own surplus funds. We have heretofore been a borrowing nation. We are about to become, for a while at least, a creditor nation; and becoming a creditor nation is there any higher form of credit then the government obligations of the two richest nations in the world?

Now, take the situation in France for the last century. There has been one period after another that might had led men, affected very much by the moment or who did not keep their historical perspective, to say: "This is the end of things." The Napoleonic era with its revolution and anarchy, and then after that the restoration in 1814, the revolution under Louis Phillippe, in 1830; then another revolution in 1848 followed by a republic which soon changed into an empire; then the costly and disastrous defeat by Germany in 1870, followed by another revolution and the Third Republic.

Through it all the French rentes have given a not much higher yield to the investor than the yield offered to the American investor to-day.

Those facts are interesting not in themselves alone, but because of the different point of view that they compel us to take in looking at a government obligation as opposed to an obligation that depends merely upon the skill and ability and foresight of men, however wise they may be. A new invention may do away with prosperous sailing vessels. A change in a form of machinery may do away with this mill or that mill, however wise the people may be who have tried to foresee all the contingencies. Railroad investments and electrical investments have their vogue. But back of it all, in order to give any value to that type of investment, stand governments, and government obligations have been and will continue to be—if there is to be any order in the world—will continue to be the premier security into which investment money can go.

Now, I had not meant to talk this long, and I am only going to say one thing more. I think that all of us who are engaged in this work, in bringing to the American investor this kind of an investment, in trying to get him to diversify his risk by putting a portion of his surplus into a premier government security. I think all of us are engaged in a work of which we are going to be very proud when we look back upon it in later years. When this war is over we are going to be proud that we have had a part in helping to make the United States of America a creditor nation, we are going to be proud that this nation, which has had to go for so much of its investment money, in large affairs, to the other side, is having the other side come to it and ask for credit.

This country which has really been built up in this century that I have spoken about, this country is now in a position when its investors have a chance to get a "back log" in the obligations of two governments like England and France—I believe thoroughly in Mr. Morgan's statement that we all see clearly two or three years from now that this war cannot end in such a way as to involve the repudiation of the external debt of any first-class nation. Nations that depend so much on foreign trade must keep their external debt good as a basis for a continuation of their business. Holland, with its comparatively small military power, has had the highest credit. It may take very heavy taxation to take care of the service of England's debt, although not so heavy as after the Napoleonic wars, unless the war continues for five or six years. The ratio of England's debt to the income of its people, as estimated by Sir George Paish, will, after five years of war, still be less than the ratio of its debt to the income of its people at the end of the Napoleonic era. But remember that England to-day has investments all over the world. In Australia alone, in obligations representing railroads, public utilities, etc., England has an investment of some five hundred million dollars. The taxation at the end of this war is not apt to be as hard a burden on the country as it was at the end of the Napoleonic era, because it is much more likely to be, and ought to be, imposed upon the rich, who have accumulated property, rather than on the poor, as was the case at the end of the Napoleonic era.

This is all I have to say. I thank you very much for listening to me so long. I do not know when I have had the high privilege of having four or five hundred men who are as busy as you are and as important in the affairs of this country as one of you, to listen to me as long as you very graciously have done. I thank you. [Applause.]

Mr. MORGAN. To-day at luncheon Lord Reading was in the office—he is the chairman of the Commission—and he said, "You know, I think the most extraordinary thing about this whole negotiation has been the fact that you all came together, you all have been working together so that we are dealing with the united front of American business." I do not think that Lord Reading felt that he could get that done at home. The co-operation that has been secured in this country by everybody—everybody has turned to on this thing and helped every way they could, encouragingly, unseemingly giving of their time and trouble and all for no pay, so far. Now, we hope to get some.

I want to thank you all for myself personally and my partners as well as the house, that you have played up so splendidly with us. It has all been of the greatest help to us.

Now, I hope the meeting will become informal and we will get around and meet each other. [Applause.]

(The formal meeting was then closed.)

[Printed in January 1936, for use in hearings of Senate Munitions Committee.]

EXHIBIT NO. 2290

2a

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Oct. 2, 1915.

[Copy of telegram despatched to Morgan, London]

7972. For E. C. Grenfell. Matter entirely accomplished, expect to close underwriting Monday. Will make issue as soon as possible thereafter. We are more delighted than can say at loyal and gratuitous support we have received everywhere. Thing so much of a success am thinking more keenly of holding. Please disregard any former cables regarding aid from your side, as, of course, prefer to have our record clear as having done whole thing here. In case you desire any participation we will assign you from our own subscription. Cable for our opening Monday morning how much, if any, you would like.—J. P. MORGAN.

MORGAN.

EXHIBIT NO. 2291

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Oct. 13, '15.

[Copy of telegram despatched to Morgan, London]

9202. 8862. For E. C. Grenfell. We have from start put ourselves down for minimum of $10,000,000, but among ourselves have agreed to hold ourselves further in reserve up to a total of $25,000,000, if that should be necessary. We have all thought it wise to make our amount somewhat elastic so as to be able to take up slack if necessary at last moment. We have also thought it to advantage in quoting figures to associates to intimate that such figures did not include our own subscription, leaving them to infer as favorable things as they might desire from such a statement. For your confidential information, amount of underwriting, outside our own subscription, $508,000,000. You can readily see, therefore, how near right we were when we declined to undertake formation of syndicate for over amount mentioned. Two weeks ago, just after agreement had been reached, Lord Reading asked us pointedly what our firm's subscription was going to be. At that time we declined to tell him and, in fact, did not relish the inquiry, but have since said to him substantially as above.

MORGAN.

EXHIBIT NO. 2292

2a

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Oct. 16, '15.

[Copy of telegram despatched to Morgan, London]

9296. 8952. The enormous amount of detail work in taking care of first payment from the underwriters on the fifteenth, and arranging for deposit of that payment in the subscribing banks all over the United States has made it impossible to even estimate the situation with reference to the public offering. We will try on Monday to give you the situation. Bear in mind, however, that most of the people who could be expected to buy the bonds for investment came in as underwriters and it will be only by hard personal work of the one hundred or more distributing houses that we have enlisted that the loan will be placed with the small investors.

MORGAN.

EXHIBIT No. 2293

2a

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Oct. 18, 1915.

[Copy of telegram despatched to Morgan, London]

9334. 9202. For E. C. Grenfell. For your information, when it became necessary last Friday [Oct. 15] evening to sign the contract with the Commission or delay their sailing next morning, we had failed to receive signed syndicate agreements for an amount upwards of $162,000,000 and therefore in order to have the contract cover the full amount of $500,000,000, this firm took the responsibility of $162,000,000. In doing so, of course, we undertook a very large technical risk because in case of some disaster it might be that these participants who had signified their acceptance by informal letter, telegram or telephone, might decline to sign agreement on technical ground that some part of its phraseology was not satisfactory. We should have greatly preferred, of course, to have delayed signing until agreements were all in, and perhaps it might not be amiss for you to point out to your friends that this was only one of several gaps that we filled in order to consummate the transaction. There has been no undue delay in securing signed agreements, such delay being due to the long distances, agreements having to be posted as far as California and return, and also to fact that many particpants had never before taken part in any syndicate, and sometimes would take several days to scan form of agreement. Response to public subscription is as yet very slow and frankly we do not look to see syndicate materially relieved under 90 days.

MORGAN.

EXHIBIT No. 2294

[Excerpt of letter]

BANK OF ENGLAND,
15th January, 1917.

DEAR MR. STRONG: The premature announcement of your authorization to appoint us as agents did not really do the faintest harm. The Governor particularly wishes me to thank you for your courteous telegram on the subject and to say that he quite realized what must have happened. As a matter of fact the announcement, though premature, was probably useful as it tended to allay the feeling of soreness which had been caused by the Federal Reserve Board's warning against taking either long or short loans of the belligerents. We ourselves, while declining to regard that warning as intentionally unfriendly, are still somewhat at a loss to divine its real purpose. I almost wonder that the Board, when it saw that millions of money were being invested in ephemeral works to supply the enormous temporary requirements of the Allies did not issue a warning in time to check such dangerous expansion. And if it had done so a year or two years ago it would have benefited not only the United States but also perhaps, indirectly, ourselves by forcing us to become more self-supporting. When however the huge outlay had been incurred and the gigantic orders placed, it did seem rather odd that a warning should have been given against facilitating the raising of funds with which to pay for them. However, we realize that, as the Spaniards say, everyone is master in his own house, and that we have no right to enquire the motive for your internal warnings and regulations.

Fortunately the American exchange position, which has given us plenty of anxious thought, seems easier now, and I hope that if money rates keep low on your side it may continue so. We have still a fair amount of gold to spare in case of need and our good friends the Japanese are helping us to a good many American dollars. But the war is not over yet, in spite of all the peace talk.

Yours sincerely,

(Signed) BRIEN COKAYNE.

BENJAMIN STRONG, Esq.

EXHIBIT No. 2295

FEBRUARY 27, 1918.

MY DEAR ADRIAN: In asking me to dictate the substance of what I stated last Friday to Mr. Root, you have imposed upon me a considerable undertaking which, in fact, I have not the time just now to carry out in full.

This letter will supplement the article which I sent you.

It is my belief that the country faces the choice of two courses: The first is to rely upon educating 100,000,000 people by strictly educational methods to practice thrift by denying themselves the purchase of luxuries, and in fact, anything and everything that they can get along without during the period of the war, so that materials and labor may be released from supplying those things and in place thereof be employed in the production of things essential to the prosecution of the war. The alternative is to abandon the educational means of accomplishing this and actually exercise control by legal methods over production and consumption in such a way as to produce the same results in a much shorter time

Failure to produce the result desired; that is, reduce consumption, means that the materials required for the war, both by this country and by our Allies, must be produced as an addition to the normal production of the country in peace time, thereby causing a tremendous expansion of credit, a shortage of labor and materials, constantly rising prices for labor and materials, a much more expensive war, domestic discontent with living hardships, and a mortgage upon the production of future generations that may prove to be a staggering load. The goods now produced and consumed in war, without the germ of reproduction in them, will be paid for partly by taxes and partly by bonds sold to those who have incomes in excess of their present needs. Those who buy the bonds must some day have their loans repaid by taxes collected from others in the future. The loans are mortgages upon the productive efforts of all the people.

Assuming, therefore, that either by educational or compulsory methods consumption must be curtailed, what means can be employed with safety and without disorganizing the country's affairs to get prompt results?

This is too big a question to answer offhand and without getting advice of men familiar with many branches of our business and financial life. My own ideas are rather crude, but may be expressed roughly as follows:

First, as to credit: Our banks should be organized and their officers educated, or in time required, to discriminate in the loans they make to their customers so that no credit will be wasted for purposes not essential to the war. If the 25,000 banks of the country could each curtail their credit $10,000 on the average, the loan and deposit accounts of the bank would be reduced by $2,500,000,000. The bank reserves would increase. Money would flow to the money centers. Interest rates would be reduced. The consumption of material and employment of labor which would have resulted from granting these loans would be saved, with, of course, some influence upon the prices both of materials and of labor.

Second, as to raw materials essential to war industries, feeding and clothing the people and other industries contributory thereto: The Government's policy in fixing prices operated either to restrain production or to divert the application of labor on farms and elsewhere to changing the production in form so as to escape the operation of the price-fixing policy. A farmer who may have ten or twelve ways of employing his soil or of applying his labor to it, might find wheat much less profitable at $2.20 than some other product of his farm, which might even nvolve feeding his wheat to stock. Unless all economic laws can be suspended or repealed by act of Congress I feel that it would be sounder to fix maximum prices for luxuries and let the prices of essential raw materials that enter into the production of these luxuries find their natural level. The consequence would be the widening of the margin of profit on the production of esxential raw materials and the diminishing of the margin of profit to the producer of non-essentials, which might, in fact, release labor and material and plants for Government use. This may not be the way to deal with the price question, but it illustrates the ineffectiveness of price fixing for some of our production with no control of other things.

Third. Whether consumption is restrained either by control of credit, control of raw materials, or by any other means, one consequence is to throw labor out of employment and make factories idle. Such a policy brings discontent and might, in fact, make the war unpopular. To deal with this makes it necessary for our Government to organize the industries of the country for war work just as rapidly as they are released from other work as a result of some uniform policy of restraint of consumption. To illustrate this point, let us assume the case of a shoe manufacturer whose normal production is 30,000 pairs of shoes per month. The Government, needing shoes very badly, asks him to increase his output so that he can deliver 90,000 pairs of shoes a month to the Army. This manufacturer finds it necessary to add to his plant, to vastly increase his purchase of raw material, to buy more machinery, to attract more labor to his plant and train it, to furnish housing for it. Nor is that all. It becomes necessary to provide expanded bank facilities; to enlarge trade and transit facilities in the town where his plant is located, and generally to reorganize the community to take care of an establishment three times as large as normally. How much better it would be for the Government to take over some existing plants, even located disadvantageously in some respects, and avoid all of this disorganization. If a plant manufacturing some other article could be converted into a shoe factory to produce 60,000 paits of shoes a month, buildings could be used; existing power plants could be used; labor already located there could be trained; banking, mercantile, and transportation facilities will be adequate, and no disorganization would result. The sole requirement would be to have the original manufacturer furnish supervision and a nucleus of men to train existing labor in the reorganized plant, and new machinery would need to be purchased and possibly the plant somewhat rearranged for its new production. The one notable exception necessary for such a program is shipbuilding, where absolutely new plants must be built at tidewater, and, of course, labor attracted there to operate them. Existing plants employed for other purposes cannot easily be converted into shipyards.

Fourth: Taxation forms just as important a part of the program for the conservation of resources as the first three named. If prices are to be fixed for raw materials under the policy now adopted, wasteful consumption must be restrained in order to insure a well-balanced price level so that the maximum prices fixed will not operate to restrain production. Probably consumption taxes, skillfully employed, particularly to articles of luxury which contain raw material elements which are essential for war purposes, are the only effective means of enforcing economy of consumption.

These few suggestions are really intended to point out what I believe is the conviction of many thoughtful people, that our present policy is not well-balanced either as regards credit, raw material, labor, industrial plants, and taxation. The whole program of organizing the Nation for war should be revised so that the maximum pressure can be applied to the one elementary and fundamentally national need at the present time to reduce unnecessary consumption and stimulate the production of essentials.

Beyond the economic problems there is an equally important social or political problem. We can lose the war just as promptly by failure of popular support of the war as we can by military defeat or exhaustion of resources. If the Nation's activities are not reorganized concurrently and by a well-balanced program, hardship is bound to result, caused in the one extreme by unemployment, or in the other extreme by inflated prices and consequent living hardships. So that it must always be borne in mind that one of the principal objects of a well-balanced program is to keep people employed and contented and enthusiastic about the war, rather than discontented and sullen and reactionary.

Very truly yours,

——— ———, *Governor.*

Adrian Larkin, Esq.,
Messrs. Joline, Larkin & Rathburn,
54 Wall Street, New York.

BS/RAH

Exhibit No. 2296

2a

J. P. Morgan & Co.,
Export Department,
New York, Nov. 3, 1915.

[Copy of telegram received from Morgan, London] (Dated 11/2/15)

10255. Denkbar for T. W. Lamont. As soon as if ever you have a little leisure, will you write me fully history of Anglo-French loan 1915 negotiations, plots and counterplots, and attitude of Commissioners. This would greatly help me as there has been considerable amount of underground work here, possibly begun in New York. Sir Edward Holden has returned with very swelled head and has been forming committee and making arrangements on his own authority. He has been always very jealous of Morgan houses and practically gave out here that he was going to work through other parties, from a committee of National City Bank, New York, Guaranty Trust Co., New York, and Bankers Trust Co. in New York, to your exclusion, hence some of the operations mentioned in 9583, 9638.

I hope, without my joining committee, that it will be formed tomorrow on lines entirely satisfactory to you. Lord Reading returned enthusiastic about J. P. Morgan & Co.'s treatment, but he has of course gone back to his legal duties, whilst Sir Edward Holden strutted about and said that he had done it all.

I hope this will give you our side of the picture, and we shall welcome yours.—E. C. G.

MORGAN.

EXHIBIT NO. 2297

J. P. MORGAN & Co.,
Export Department,
New York, November 3, 1915.

[Copy of telegram despatched to Morgan, London]

9658. 10255. Denkbar for E. C. Grenfell. Two weeks ago dictated memorandum for you covering this matter, but because it contained pretty drastic criticism hesitated to send same. Am now transmitting to you tomorrow. For your further information remaining British and French Commissioners here express bitter disappointment over slow sales of loan, total sales to public being less than $10,000,000 over and above the $260,000,000 withdrawn by participants thus leaving $230,000,000 to be sold to the public. Sales proceeding so slowly that practically no chance before dissolution of syndicate December 15th of being able to dispose of any large amount. Believe syndicate will, in addition to amount withdrawn, have thrown back on its hands $150,000,000 or $200,000,000 resulting in probable decline in issue price. This depresses and alarms the Commissioners here greatly and they will probably communicate their views to Governments resulting in impression that we are not doing all that can be done to effect sales, which is the only method by which price can be legitimately maintained, and loss of credit not suffered by Governments. Lord Reading, however, will remember that throughout the negotiations we adhered to the position that the best possible plan for enhancing the credit of the Governments here and for eventually obtaining the largest possible credit was to authorize our forming initial syndicate $250,000,000, have same oversubscribed, with the result that the underwriting would be considered as very choice, bonds would be handled quickly, go to premium, etc., and put us in early position for repeated operation. Commission would not listen to this and insisted upon our conducting an operation which we plainly foretold them would surfeit everybody and, in the long run, prove nothing like as creditable to Governments. We are doing everything in our power to disprove our own prophecy, but the circumstances are too much for us, for in order to accomplish the $500,000,000 underwriting, we were obliged to throw it open to all investors of any size and even at that barely squeezed by the necessary mark. The result is that investing public came in largely on underwriting and on our offering we have limited public to appeal to until educational work throughout country has had opportunity to take effect, which will be a matter of not of weeks but of months.—THOS. W. LAMONT.

MORGAN.

EXHIBIT NO. 2298

[File copy]

NOVEMBER 4, 1915.

[Pencil notation: "Bank of Montreal."]

R. Y. HEBDEN, Esq.,
64 Wall Street, New York, N. Y.

DEAR MR. HEBDEN: We haven't made any statement as to the amount of sales of Anglo-French bonds and, for tactical reasons, I would rather prefer to be in a position where we could make the statement that we hadn't given the figures to anyone. For your own information, however, the sales, while slow for the first few days, have been increasing in a very satisfactory way. It is too early yet to make a guess as to the total result of the sales by the time the syndicate is dissolved and I wouldn't want, at this time, to hazard an opinion on the subject.

There is one feature in connection with the business which is helping all the time and that is that people are requesting the privilege of withdrawing additional amounts of bonds and, while we have made no general agreement to permit withdrawals after October 15th, we have, as a matter of practice, been glad to encourage it and this has amounted to a very substantial total since that time.

Yours very truly,

——— ———.

AMA–Dt.

Exhibit No. 2299

2a, 5a

J. P. Morgan & Co.,
Export Department,
New York, Nov. 11, 1915.

[Copy of telegram despatched to Morgan, London]

9832. 10366. For your information J. P. Morgan & Co. and Drexel & Co., Philadelphia, jointly signed for about $30,000,000 on the final syndicate list' This includes not only our own subscription, but that of our customers and the individual partners as well as Philadelphia houses and banks for whom Drexel & Co. took responsibility and signed up.

Final adjustment has not yet been made, but if our final commitment is reduced even to $5,000,000 as may be possible, we shall be quite content for the following reason which was not apparent at the time we had decided upon $10,000,000 as our minimum commitment see 9202, reason being that with bonds going as slowly as they are, it is increasingly manifest that upon dissolution of syndicate next month market price is practically certain to decline and we are anxious to be in a position ourselves to protect the market as far as may be feasible. After dissolution of syndicate there are really no members of group that we can ask to assist in this, it being quite a thankless operation. The figures may be so large that we shall be able to accomplish little, but we all think it wise to keep ourselves in reserve as much as possible. This explanation is made so that you may understand picture completely.

Morgan.

Exhibit No. 2300

December 9, 1915.

Harris Trust and Savings Bank,
Chicago, Ill.

ANGLO FRENCH 5-S

Dear Sirs: We have all expected that when the Anglo-French syndicate agreement expired by limitation on December 15th the price of the bonds would fall off temporarily, at least, and most of us have been convinced that the market position of the bonds would be greatly improved by going through a period of readjustment. Undoubtedly there are a great many prospective buyers who have anticipated a break in price and were unwilling to buy until after the expiration of the syndicate agreement. There have been a good many indications that some important buying would take place whenever it appeared to the prospective purchasers that the bonds were being traded in at a natural price in an absolutely free market.

While, as stated above, we expected the price to decline with the closing of the syndicate, the break culminated a little sooner than we anticipated through some heavy selling of bonds on the exchange yesterday in the form of "seller contracts" at around 95. There were a few sales of bonds for regular delivery at 97½, but the bulk of the business was done for future delivery at the lower price.

We have this morning discussed the matter with J. P. Morgan & Co. and they have authorized us to trade the "seller contracts" at the market. This puts us in a position to fill orders from customers at a close market price and is in every way to the advantage of this deal in particular as well as the general market situation. We have just wired you briefly so that you may understand that we no longer feel obliged to confine our dealings to sales at the agreed syndicate price of 98.

As intimated above, we are quite confident that unrestricted trading for the time being "at the market" is all that is needed to stimulate the demand for these bonds and that any turn may reasonably be expected to put the bonds back within a short time to a point more nearly in keeping with their actual investment value.

It seems to the writer that we have here the peculiar situation of a bond which on any basis of comparative value is undoubtedly worth 98—the regular syndicate price—but which because of the unusual quantity and other special factors, could not be kept at that price long enough to complete the distribution of the entire issue and put the bonds in the hands of permanent holders.

We shall be glad to execute orders for the bonds at the market.

Very truly yours,

(Signed) Harris, Forbes & Co.

WEB CA.
C to B.

Exhibit No. 2301

[Copy]

October 29, 1915.

Messrs. Lazard Freres & Co.,
Paris.

Dear Friends: We have to thank you, Mr. Michel Lazard, for your private letter of October 8th. We were glad to hear that friend Thibault stood the operation well & we hope that by this time he has fully recovered.

We overlooked to mention to you that we took a participation of $1,000M in the Anglo-French loan of which we gave away about $300M to private clients. Not very much interest is taken by the general public in these bonds & it is therefore difficult to predict whether the syndicate will be able to uphold the quotation at anywhere near the issue price when the syndicate is once dissolved. The synd. will, however, not expire before the middle of December.

The so-called war stocks have a considerable decline this week on rumors of peace, but the general market has ignored this weakness in specialties & today's market is firmer than ever with large speculation in a wide range of stocks most of which are at the highest prices so far reached.

Yours very truly,

(Signed) Lazard Freres.

Exhibit No. 2302

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—SELLING SYNDICATE

Name	Participation	Profit **
Abbott, Gordon [General Electric]	$50,000	$900.25
Albany, N. Y., National Commercial Bank	150,000	2,700.75
Albany, N. Y., N. Y. State National Bank	100,000	1,800.50
Aldred & Company [light & power]	937,000	16,870.68
Alexander & Burnet [brokers, N. Y.]	215,000	3,871.07
Alvord, John F. [wire wheel corp., prest.]	100,000	1,800.50
American Can Company [U. S. contracts]	1,500,000	27,007.50
Amsterdam, N. Y., Montgomery County Trust Company	27,500	495.14
Anderson Bruns & Co. [N. Y. broker]	300,000	5,401.50
Andrews & Co., Chicago, Ill. [broker]	150,000	2,700.75
Atlanta, Ga., Trust Co. of Georgia	365,000	6,571.82
Auchincloss Joost & Co. [stock broker, N. Y.]	82,500	1,485.41
Babcock, Rushton & Co. [broker, N. Y.]	50,000	900.25
Babcock & Wilcox Co. [pump, etc., war contracts]	500,000	9,002.50
Bache & Co., J. S. [Aetna explosive]	189,000	3,402.95
Baltimore, Md., Citizens National Bank	150,000	2,700.75
Baltimore, Md., Mercantile Trust & Deposit Company	50,000	900.25
Baltimore, Md., National Bank of Commerce	50,000	900.25
Bangor, Me., First National Bank	25,000	450.12
Bartlett Hayward Co., Baltimore, Md. [war contracts]	500,000	9,002.50
Baruch, B. M. [broker, N. Y.]	500,000	9,002.50
Bayonne, N. J., Mechanics Trust Co., of N. J	25,000	450.13
Bayonne, N. J., Mechanics Trust Co., of N. J	40,000	720.20
Bay Shore, N. Y., The South Side Bank	10,000	180.05
Beer, H. & B	100,000	1,800.50
Belknap Hardware & Mfg. Co., Louisville, Ky	100,000	1,800.50
Belmont & Co., August [brokers, etc., N. Y.]	399,500	7,193.00
Bethehem Steel Co., Bethlehem, Pa	20,000,000	360,100.00
Bernhard, Scholle & Co. [brokers, N. Y.]	260,300	4,686.70
Bickmore & Co., A. H. [light & power brokers, N. Y.]	200,000	3,601.00
Birch, Stephen [copper compounds]	50,000	900.25

** This represents total profit, including final distribution.

Note.—Pencil notations enclosed in brackets.

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—SELLING SYNDICATE—Continued

Name	Participation	Profit **
Bismarck, N. Dak., First National Bank	$10,000	$180.05
Blair & Company [securities, N. Y.]	100.000	1,800.50
Bonbright & Co , W. P. [light & power]	664,100	11,957.12
First Natl. Bank, Gouverneur, N. Y. [brokers, N. Y.]	10,000	180.05
First Natl. Exchange Bank, Port Huron, Mich	10,000	180.05
Mechanics Trust Co., Harrisburg, Pa	20,000	360.10
Bond & Goodwin, New York City [brokers, N. Y.]	249,900	4,499.45
Borg & Co., Simon [brokers, N. Y.]	1,000,000	18,005.00
Boston, Mass., American Trust Co., a/c General Electric Co	100,000	1,800.50
Boston, Mass., National Shawmut Bank, a/c General Electric Co	100,000	1,800.50
Boston, Mass., Old Colony Trust Co., a/c General Electric Co	200,000	3,601.00
Braman, Dwight	50,000	900.25
Branch & Co., Thomas	170,000	3,060.85
Breed, Elliott & Harrison, Cincinnati, O. [brokers]	148,000	2,664.74
Bridgeport, O., Bridgeport Natl. Bank (through Harris, Forbes & Co.)	25,000	450.12
Bridgeport, Conn., Bridgeport Trust Co	50,000	900.25
Bridgeport, Conn., Connecticut Natl. Bank	75,000	1,350.37
Bridgeport, Conn., First Bridgeport Natl. Bank	100,000	1,800.50
Brooklyn, N Y., Homestead Bank (thru Potter, Choate & Prentice)	20,000	360.10
Baltimore, Md., Alex. Brown & Sons	285,000	5,131.43
Brown Bros. & Co	2,710,000	48,793.55
A/c First Natl. Bank, Colorado Spgs., Colo. [brokers, N. Y.]	20,000	360.10
A/c New Netherland Bank	150,000	2,700.75
A/c Union Trust Co. of N. J., Jersey City, N. J	25,000	450.13
Brownell, G. F., c/o Erie R. R. Co. [prest., etc., Erie R. R.]	50,000	900.25
Buffalo, N. Y., Bank of Buffalo	300,000	5,401.50
Buffalo, N. Y., Citizens Bank of Buffalo, a/c William H. Crosby (P. C. & P.)	25,000	450.12
Biddeford, Me., Biddeford Natl. Bank (K. K. & Co.)	10,000	180.05
Biddeford, Me., Goodwin Trust Co. (K. K. & Co.)	4,000	72.02
Calloway, Fish & Co. [Taylor Wharton Iron & Steel brokers, N. Y.]	128,000	2,304.64
Canajoharie, N. Y., Canajoharie Natl. Bank	10,000	180.05
Carey & Co., H. T. [brokers, N. Y.]	50,000	900.25
Carse, Henry R	50,000	900.25
Cassel, Sir Ernest	2,500,000	45,012.50
Charleston, S. C., Bank of Charleston, NBA	200,000	3,601.00
Charleston, S. C., Peoples National Bank	85,000	1,530.43
Charlotte, N. C., Union National Bank	25,000	450.13
Chicago, Ill., Central Trust Co., of Ill	665,000	11,973.32
Childs & Co., C. F., Chicago, Ill	150,000	2,700.75
Cincinnati, O., First National Bank	1,350,000	24,306.75
Clark & Co., J. A. [brokers, N. Y.]	10,000	180.05
Clark, Dodge & Co. [brokers, N. Y.]	377,300	6,793.29
County National Bank, Clearfield, Pa	50,000	900.25
Cleveland, O., Bank of Commerce, N. A	250,000	4,501.25
Cleveland, O., First National Bank	1,350,000	24,306.75
Cleveland, O., National City Bank	100,000	1,800.50
Cleveland, O., National Commercial Bank	100,000	1,800.50
Cleveland, O., Union National Bank	100,000	1,800.50
Coffin & Co. [brokers, N. Y.]	100,000	1,800.50
Cohoes, N. Y., National Bank of Cohoes	10,000	180.05
Colgate Parker & Co. [oil brokers, N. Y.]	264,000	4,753.32
Columbus, O., Huntington National Bank	40,000	720.20
Compton Bond & Mtge. Co., Wm. R	100,000	1,800.50
Crockett, Tex., First National Bank	50,000	900.25
Cummings & Marckwald [brokers, N. Y.]	200,000	3,601.00
Curtis & Sanger (thru N. W. Halsey & Co.) [banking brokers, N. Y.]	25,000	450.13
Cooperstown, N. Y. Second Natl. Bank, (L. H. & Co.)	25,000	450.13
Danbury, Conn., City National Bank	10,000	180.05
Daniel & Co., Robt. W., Phila. Pa. [brokers]	250,000	4,501.25
Davenport & Co., Richmond, Va. [brokers]	40,000	720.20
Davis & Co., John H. [brokers]	75,000	1,350.38
Day & Heaton [brokers, N. Y.]	300,000	5,401.50
De Jonge, S., c/o Herzog & Blazier [paper]	50,000	900.25
De Ridder, S	6,000	108.03
Detroit, Mich., First & Old Detroit Natl. Bank	500,000	9,002.50
Dominick Bros., & Co. [brokers, N. Y.]	10,000	180.05
Dominick & Dominick [brokers, N. Y.]	133,500	2,403.67
Dow Jones & Co	25,000	450.13
Dreyfus, Louis G	2,000	36.01
Duncan, A. E., c/o Natl. Bank of Commerce, Baltimore Md	25,000	450.13
Du Pont De Nemours & Co., E. I. [contracts]	10,000,000	180,050.00
Ditson, Chas. H., 19 E. 37th Street, N. Y. C	50,000	900.25
Earle, E. P. [mining, etc.]	50,000	900.25
East Islip, N. Y., First National Bank	5,000	90.03
Edey, Fred [land broker, N. Y.]	50,000	900.25
Electric Boat Co. [contracts]	1,500,000	27,007.50
Evans Contracting Co	50,000	900.25
Everett & Co., John D	200,000	3,601.00

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—SELLING SYNDICATE—Continued

Name	Participation	Profit **
Fisk & Sons, Harvey [brokers, N. Y.]	$730,000	$13,143.65
Flagg, Ernest [Model Fireproof Tenement Co.]	40,000	720.20
Fleishacker, Herbert	350,000	6,301.75
Foster, Warren W., Hon. [Cities Service Co.]	50,000	900.25
Foster & Adams [brokers, N. Y.]	10,000	180.05
Foster & Lounsbury [brokers, N. Y.]	250,000	4,501.25
Francis Bro. & Co	92,000	1,656.46
Franklin, P. A. S. [Int. M. Marine Co., N. Y. Ship.]	10,000	180.05
Freeman & Company [brokers, N. Y.]	5,000	90.02
French, George B	50,000	900.25
Garrett & Sons, Robt [brokers, Balt.]	185,000	3,330.93
Gerstenzang Bros	20,000	360.10
Grace & Co., W. R. [war contracts nitrate soda]	250,000	4,501.25
Graham & Co., John H. [113 chambers]	12,500	225.06
Greenwich, Conn., Putnam Trust Co	50,000	900.25
Guggenheim, Daniel	2,500,000	45,012.50
Hackensack, N. J., Peoples National Bank (Thru K. K. & Co.)	15,000	270.08
Halle & Stieglitz [brokers, N. Y]	547,000	9,848.74
Hallgarten & Co. [brokers, N. Y.]	408,400	7,353.24
Hambleton & Co. [stock brokers, N. Y.]	50,500	909.25
Harris Forbes & Co. [stock brokers, N. Y.]	1,030,900	18,561.35
Hartford, Conn., State Bank & Trust Co	30,000	540.15
Hartford, Conn., United States Bank	50,000	900.25
Hathaway, Smith, Fold & Co. [C. W. Hunt Eng. Co. also Fuel]	250,000	4,501.25
Hayden, Miller & Co., Cleveland, O. [brokers]	80,000	1,440.40
Heidelbach, Ickelheimer & Co. [brokers, N. Y.]	650,000	11,703.25
Herculaneum, Mo., Bank of Herculaneum	2,500	45.01
Hercules Powder Co., Wilmington, Del. [contract]	4,500,000	81,022.50
Herrick & Bennett [brokers, N. Y.]	50,000	900.25
Herzog & Glazier [brokers, N. Y.]	250,000	4,501.25
Hincks Bros. & Co., Bridgeport, Conn	13,000	234.06
Hillyer Bond & Mtge. Co., Macon, Ga	100,000	1,800.50
Holly, N. Y., State Exchange Bank	15,000	270.08
Holt & Co. [stock exchange]	50,000	900.25
Hornell, N. Y., First National Bank	20,000	360.10
Hoyt & Co., Colgate [copper, etc.]	80,000	1,440.40
Hudson, N. Y., First National Bank	25,000	450.13
Huntington, N. Y., First Natl. Bank of (Thru A. B. L. & Co.) Huntington	20,000	360.10
Imbrie & Co., Wm., Morris [brokers, N. Y.]	100,000	1,800.50
Iselin & Co., A. [brokers, N. Y.]	500,000	9,002.50
Jenks, Francis M. (thru R. G. & S.)	20,000	360.10
Kean, Taylor & Co	1,336,500	24,063.68
A/c First Natl. Bank, Renova, Pa. [brokers, N. Y.]	10,000	180.05
A/c Lincoln Natl. Bank, Rochester, N. Y	122,000	2,196.61
A/c First Natl. Bank, Milton, Pa	30,000	540.15
A/c First Natl. Bank, Scenery Hill, Pa	5,000	90.03
Kidder, Peabody & Co., Boston, Mass. [brokers]	148,800	74,699.14
Kellogg & Sverance	100,000	1,800.50
Keys, C. M. [Curtis aeroplane]	250,000	4,501.25
Kidder, Peabody & Co. [copper]	425,000	7,652.12
Kissel, Kinnicutt & Co. [Marlin arms]	1,474,000	26,539.37
Kountze Bros. [brokers, N. Y.]	650,000	11,703.25
Laidlaw & Co. [brokers, N. Y.]	124,000	2,232.62
Lackawanna Steel Co. [Gov't contracts]	1,000,000	18,005.00
Ladenburg, Thalman & Co. [broker, N. Y.]	370,900	6,678.05
Lauer & Co., William E. [broker, N. Y.]	100,000	1,800.50
Laurencelle, L A	4,000	72.02
Lazard Freres [broker, N. Y.]	700,000	12,603.50
Leach & Co., A B	550,000	9,902.7
A/c Pittsburgh Trust Co., Pittsburgh, Pa	400,000	7,202.00
A/c Turtle Creek Savings & Trust Co Turtle Creek, Pa	5,000	90.02
A/c Little Falls Natl Bank, Little Falls, N Y	25,000	450.13
Lee, Higginson & Co., Chicago, Ill	418,000	7,526.09
Lee, Higginson & Co., Boston, Mass. [brokers]	4,439,200	79,927.79
Lee, Higginson & Co., New York, N. Y	501,600	9,031,31
Lehman Bros. [brokers, N. Y.]	200,000	3,601.00
Livingston & Co. [brokers, N. Y.]	340,000	6,121.70
Long, R. H., Framingham, Mass. [war contracts, reg. belts, helmets]	200,000	3,601.00
Louisville, Ky., National Bank of Commerce	50,000	900.25
Louisville, Ky., National Bank of Kentucky	100,000	1,800.50
Louisville, Ky., United States Trust Co	107,000	1,926.54
Low, Dixon & Co	50,000	900.25
Luke, Banks & Weeks [brokers, N. Y.]	100,000	1,800.50
Lyndonville, N. Y., Citizens State Bank (tfr. Guaranty Tr. Co.)	5,000	90.02
Lyndonville, N. Y., Citizens State Bank	10,000	180.05
Mackay & Co. [broker, N. Y.]	100,000	1,800.50
Magoffin, James R. [New & C. McWalter Co.]	25,000	450.13
Mann, Bill & Co. [broker, N. Y.]	17,000	306.08
Marin, John C	4,000	72.02

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—SELLING SYNDICATE—Continued

Name	Participation	Profit **
Merchants National Bank, Middletown, N. Y. (thru. L. H. & Co., N. Y.)	$100,000	$1,800.50
Midvale Steel Co., Midvale, Pa. [contracts]	1,000,000	18,005.00
Millett, Roe & Hagen [broker, N. Y.]	161,000	2,898.81
A/c First National Bank, Butler, N. J	10,000	180.05
Mills, A. L., c/o First Natl. Bank, Portland, Ore	200,000	3,601.00
Minneapolis, Minn., Northwestern Natl. Bank, a/c First & Security Natl. Bank, Minneapolis, Minn	300,000	5,401.50
Minneapolis, Minn., Northwestern Natl. Bank	100,000	1,800.50
Mitchell & Co., C. E. [Remington arms, broker, N. Y.]	100,000	1,800.50
Montclair, N. J., Essex Title Guarantee & Trust Co. (thru. L. H. & Co. N. Y.)	5,000	90.02
Montgomery, Clotheir & Tyler	221,600	3,989.91
Morgan, S. T., Richmond, Va., address all notices to First National Bank, Richmond, Va	75,000	1,350.37
Morgan, J. P. & Co	3,686,400	66,373.63
A/c Bessemer Investment Co., N. Y. C	500,000	9,002.50
A/c Bevan, Dr. A. D., Chicago, Ill	50,000	900.25
A/c Davis, Norman H	75,000	1,350.37
A/c Drexel & Co., Philadelphia, Pa. [brokers]	11,512,800	207,287.96
A/c H. T. Holtz & Co	102,000	1,836.51
A/c Lester, Carter & Co., Chicago, Ill. [brokers]	10,000	180.05
A/c E. L. Lobdell & Co	8,500	153.04
A/c Edouard Noetzlin Paris, France, Cable No., 10805	100,000	1,800.50
A/c Russell, Brewster & Co	130,000	2,340.65
A/c Scottish-Amer. Investment Co. Ltd. Edinburgh, Scotland	250,000	4,501.25
A/c J. Walter Thompson	15,000	270.07
Muir & Co., John [broker]	150,000	2,700.75
New Haven, Conn., Union & New Haven Tr. Co	40,000	720.20
New Orleans, La., Interstate Tr. & Bankg. Co	75,000	1,350.37
New Rochelle, N. Y., New Rochelle Mtg. & Security Co	50,000	900.25
New York City, Bank of Montreal	1,100,000	19,805.50
New York City, Amer. Exchange Natl. Bank	2,300,000	41,411.50
New York City, Royal Bank of Canada	500,000	9,002.50
New York City, Astor Trust Co	350,000	6,301.75
New York City, Bank of America	700,000	12,603.50
New York City, Central Trust Co	5,985,000	107,759.93
New York City, Chase National Bank	13,400,000	241,267.00
New York City, Bank of New York, N. B. A	551,000	9,920.76
New York City, Citizens Central Natl. Bank	361,500	6,508.81
New York City, Columbia Trust Co	450,000	8,102.25
New York City, Equitable Trust Co	1,000,000	18,005.00
New York City, First National Bank	3,855,000	69,409.28
New York City, Franklin Trust Co	200,000	3,601.00
New York City, Guaranty Trust Co	7,327,900	131,938.84
New York City, Hanover National Bank	2,000,000	36,010.00
New York City, Irving National Bank	897,100	16,152.29
New York City, Lincoln Trust Co	150,000	2,700.75
New York City, Liberty National Bank	2,541,700	45,763.29
New York City, Mechanics & Metals Natl. Bk	1,000,000	18,005.00
New York City, Merchants Natl. Bank	535,100	9,634.48
*A/c Farmers Natl. Bank, Athens, Pa	5,000	90.02
*A/c Farmers Natl. Bank, Adams, N. Y	10,000	180.05
New York City, Natl. Bank of Commerce	180,000	3,240.90
New York City, National City Bank	14,505,700	261,175.13
*A/c Montgomery County Trust Co., Amsterdam, N. Y	20,000	360.10
New York City, National City Co	4,000,000	72,020.00
New York City, Bankers Trust Co	2,653,000	47,767.26
New York City, National Park Bank, a/c First Natl. Bank, Superior, Wis	100,000	1,800.50
New York City, N. Y., County Natl. Bank	100,000	1,800.50
Naumburg & Co., E., New York City	250,000	4,501.25
Newberger, Henderson & Loeb, N. Y. City	174,500	3,141.87
New York Air Brake Co., New York City	500,000	9,002.50
New York Susquehanna & Western R. R. Co., New York City	500,000	9,002.50
New York City, New York Trust Co	100,000	1,800.50
New York City, State Bank	500,000	9,002.50
New York City, Union Trust Company	500,000	9,002.50
New York City, U. S. Mortgage & Trust Co	500,000	9,002.50
New York City, United States Trust Co	2,500,000	45,012.50
Nichols, Wm. H., New York City [General Chemical, etc.]	100,000	1,800.50
O'Keefe, John G. c/o H. L. Horton Co., N. Y. C. [Emigrant Indust. Savings Bk.]	11,500	207.06
Peabody, Houghteling & Co., Chicago, Ill. (through J. P. M. & Co.) [broker]	100,000	1,800.50
Pennington, Colket & Co. [broker]	150,000	2,700.75
Perth Amboy, N. J., First Natl. Bank (through K. T. & Co.)	10,000	180.05
Pittsburgh, Pa., Union Trust Co	4,183,000	75,314.92
Potter, Choate & Prentice	526,800	9,485.03
A/c Wilmington Savings & Tr. Co., Wilmington, N. C	5,000	90.03

** This represents total profit, including final distribution.

NOTE—Pencil notations enclosed in brackets.

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—SELLING SYNDICATE—Continued

Name	Participation	Profit **
New York City, Seaboard Natl. Bank	$400,000	$7,202.00
Power Sons & Co	100,000	1,800.50
Prince & Co., F. H. M., Boston, Mass. [brokers]	250,000	4,501.25
Prince & Co., L. M	44,500	801.22
Probst & Co., J. D. [Shelby Iron Co.]	250,000	4,501.25
Proctor & Borden [broker]	100,000	1,800.50
Providence Engineering Works, Providence, R. I	50,000	900.25
Plattsburg, N. Y., Merchants Nat'l Bank	22,800	410.54
Randolph, Edmund & Chas. [real estate]	10,000	180.05
Raymond, Pynchon & Co. [broker, N. Y.]	585,500	10,541.93
Redmond & Co. [broker, N. Y.]	85,000	1,530.42
Remick, Hodges & Co. [Electric Boat]	149,200	2,686.35
Remington-Arms Union-Metallic Cart. Co	2,500,000	45,012.50
Rhoades & Co. [broker, N. Y.]	210,600	3,791.85
Rice & Co., J. K. Jr. [broker, N. Y.]	100,000	1,800.50
Richardson & Clark, Providence, R. I. [broker]	50,000	900.25
Richmond, Va., American Natl Bank	105,000	1,890.52
Richmond, Va., Broad Street Bank	12,000	216.06
Richmond, Va., Broadway Natl. Bank	1,000	18.01
Richmond, Va., First Natl. Bank	200,000	3,601.00
Richmond, Va., Mechanics & Merchants Bank	10,000	180.05
Richmond, Va., Merchants Natl. Bank	100,000	1,800.50
Richmond, Va., Natl. State & City Bank	75,000	1,350.37
Richmond, Va., Old Dominion Trust Co	50,000	900.25
Richmond, Va., Planters Natl. Bank	100,000	1,800.50
Richmond, Va., Richmond Bank & Trust Co	10,000	180.05
Richmond, Va., Richmond Trust & Savings Co	25,000	450.12
Richmond, Va., Savings Bank of Richmond	17,000	306.09
Richmond, Va., Virginia Trust Co	35,000	630.18
Rippel, J. S., Newark, N. J. [broker]	50,000	900.25
Read & Co., Wm. A. [broker, N. Y.]	1,584,400	28,527.12
Robinson & Co., N. Y. C. [broker]	96,000	1,728.48
Rochester, N. Y., Alliance Bank	105,000	1,890.53
Rochester, N. Y., Fidelity Trust Co	50,000	900.25
Rochester, Minn., First Natl. Bank	20,000	360.10
Rochester, N. Y., Genesee Valley Trust Co	50,000	900.25
Rockefeller, John D. [oil, etc.]	10,000,000	180,050.00
Rutland, Vt., Clement National Bank	675,000	12,153.38
Rutter & Ream [broker, N. Y.]	50,000	900.25
St. Louis, Mo., Mechanics-Amer. Natl. Bank	300,000	5,401.50
St. Louis, Mo., Mercantile Trust Co	450,000	8,102.25
St. Louis, Mo., Merchants-Laclede Natl. Bank	300,000	5,401.50
St. Louis, Mo., Mississippi Valley Tr. Co	290,000	5,221.45
St. Louis, Mo., Third National Bank	300,000	5,401.50
St. Louis, Mo., St. Louis Union Bank	250,000	4,501.25
St. Louis, Mo., State National Bank	200,000	3,601.00
St. Paul, Minn., First National Bank	600,000	10,803.00
Salomon Bros., & Hutzler [broker, N. Y.]	25,000	450.13
Salomon & Co., Wm. [broker, N. Y.]	529,700	9,537.25
A/c West Branch Natl. Bank, Williamsport, Pa	9,500	171.05
A/c Jersey Shore Tr. Co. Jersey Shore, Pa	15,000	270.08
A/c First Natl. Bank, Newville, Pa	5,000	90.02
San Francisco, Calif., Bank of California, N. A	325,000	5,851.63
San Francisco, Calif., French Amer. Bk. of Savings (through L.H.&Co. Chicago)	25,000	450.12
Schafer Bros. [broker, N. Y.]	50,000	900.25
Scholle Bros. [broker, N. Y.]	75,000	1,350.38
Scott & Co	25,000	450.12
Scott & Sons, Townsend	90,900	1,636.65
Scott & Stringfellow, Richmond, Va. [broker]	100,000	1,800.50
Seasongood & Haas [broker, N. Y.]	50,000	900.25
Seattle, Wash., Natl. Bank of Commerce	25,000	450.12
Seattle, Wash., Union Savings & Tr. Co. (through L. H. & Co., Chicago)	25,000	450.12
Seligman & Co., J. & W. [brokers, N. Y.]	974,100	17,538.66
Seymour & Co., Edmund [fish]	100,000	1,800.50
Shearson, Hammill & Co. [broker, N. Y.]	150,000	2,700.75
Sidney, N. Y., Sidney Natl. Bank (L. H. & Co. N. Y.)	10,000	180.05
St. Louis, Mo., Smith-Moore & Co. [brokers]	29,000	522.15
Smithers & Co., F. S. [central foundry]	450,000	8,102.25
South River, N. J., South River Trust Co. (through L. H. & Co., N. Y.)	10,000	180.05
Sperling, Perry	5,000	90.02
Strong, W. E. S. (through J. P. M. & Co.)	8,000	144.04
Superior, Wis., First National Bank	100,000	1,800.50
Sutro Bros. & Co. [Tennessee copper, etc.]	250,000	4,501.25
Syracuse, N. Y., Salt Springs Natl. Bank, (through K. T. & Co)	15,000	270.08
Stevens, F. W. [banks]	12,500	225.06
Tarkio, Mo., First National Bank	25,000	450.12
Tefft & Co. [N. Y. Stock Exchange]	15,000	270.07

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—SELLING SYNDICATE—Continued

Name	Participation	Profit **
Thompson, W. B. (through J. P. M. & Co.)	$500,000	$9,002.50
Thomas, C. M	5,000	90.02
Trask & Co., Spencer [broker, insurance]	72,800	1,310.76
Turnure & Co., Lawrence	75,000	1,350.37
Turtle Creek, Pa., First Natl. Bank (A. B. L. & C.)	5,000	90.03
U. S. Cartridge Co	1,129,000	20,327.65
Uptegraff, W. D	100,000	1,800.50
Van Antwerp, Bishop & Co. [stock exchange]	200,000	3,601.00
Vanderbilt, C. [Lackawanna steel, etc.]	400,000	7,202.00
Van Emburgh & Atterbury [broker, N. Y.]	500,000	9,002.50
Vickers & Phelps [brokers, N. Y.]	50,000	900.25
Wade, T. W. [realty]	30,000	540.15
Walker & Sons, Joseph [banks and railroads]	60,000	1,080.30
Walter, William I. [lawyers, mtge.]	75,000	1,350.37
Washington Steel & Ordnance Co. [contracts], Washington, D. C	1,000,000	18,005.00
Watkins, N. Y., Gen. National Bank	10,000	180.05
Wattles, G. W., c/o U. S. Natl. Bank, Omaha, Neb	100,000	1,800.50
Wells Fargo & Co	250,000	4,501.25
Werner & Co., A. L. [textiles]	50,000	900.25
Westinghouse Air Brake Co., Pittsburgh, Pa	250,000	22,506.25
Wheeling, W. Va., Natl. Bank of W. Va	50,000	900.25
Wheelwright, J. H., c/o Consolidated Coal Co., Baltimore, Md	100,000	1,800.50
White, Weld & Co. [Baldwin Locomotive brokers]	111,000	1,998.56
Williams & Sons, John L., Richmond, Va. [brokers]	42,000	756.21
Williams, Nicholas & Morgan [brokers]	21,000	378.11
Winslow, Lanier & Co. [Electric Boat]	1,000,000	18,005.00
Wise, John S., Jr	100,000	1,800.50
Wrenn Bros. [brokers, N. Y.]	100,000	1,800.50
Yonkers, N. Y., Yonkers Natl. Bank (L. H. & C., N. Y.)	50,000	900.25
Total	215,910,000	3,887,459.55

Participation list

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE

Name	Participation	Profit **
Aberdeen National Bank, Aberdeen, S. Dak	$30,000	$574.14
Aborn, Benjamin [(?) Aborn Steel Co. (?) (Gov't. contracts]	12,000	229.66
Addison, N. Y., First National Bank	10,000	191.38
Aetna Life Insurance Co	550,000	10,525.90
Auto Insurance Co. of Hartford	50,000	956.90
Aetna Accident & Liability	100,000	1,913.80
Albany, N. Y., Natl. Commercial Bank	200,000	3,827.60
Albany, N. Y., N. Y. State National Bank	421,400	8,064.75
Albany, N. Y., Union Trust Company	30,000	574.14
Aldred & Company [water and power stock brokers]	1,063,000	20,343.69
Alexander & Burnet (stock brokers]	160,000	3,062.08
Allen, George G. [Garland Steamship Co.]	5,000	95.69
Allentown, N. J., Farmers Natl. Bank	5,000	95.69
Allerton, Green & King [Chicago stock brokers]	70,000	1,339.66
American Bureau of Foreign Trade	50,000	956.90
American Can Company (contracts]	1,500,000	28,707.00
American Express Company	500,000	9,569.00
Amsterdam, N. Y., First Natl. Bank	50,000	956.90
Amsterdam, N. Y., Montgomery Co. Tr. Co	32,500	621.98
Amsterdam, N. Y., Montgomery Co. Tr. Co	15,000	287.07
Anderson, Ind., Anderson Banking Co	7,500	143.53
Anderson, Ind., Citizens Bank	7,500	143.54
Andrews & Company [Chicago brokers]	50,000	956.90
Ardery, John R. [part., McKittrick-Hurm Co.]	2,000	38.28
Asiel & Co. [brokers]	250,000	4,784.50
Atglen, Pa., Atglen Natl. Bank	10,000	191.38
Atlanta, Ga., Trust Co. of Georgia	135,000	2,583.63
Auchincloss, Joost & Co. [stock brokers]	17,500	334.92
Ausable Forks, N. Y., Bank of Ausable Forks	10,000	191.38
Avoca, N. Y., Bank of Avoca	10,000	191.38
Bach, Samuel	50,000	956.90
Bache & Co., J. S. [Aetna explosive, steel]	311,000	5,951.92
Bacon, John L., Jr	100	1.91
Bacon, R. [U. S. Steel, etc.]	950,000	18,181.10
Bacon, Mrs. Martha W	50,000	956.90

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Baggot, Atmore L	$20,000	$382.76
Baker, John S. [Richmond Underwear Co.]	50,000	956.90
Baltimore, Md., Baltimore Trust Co	227,000	4,344.33
Baltimore, Md., Chesapeake Bank	50,000	956.90
Baltimore, Md., Citizens Natl. Bank	202,500	3,875.44
Baltimore, Md., Farmers & Merchants National Bank	100,000	1,913.80
Baltimore, Md., Maryland Trust Co	50,000	956.90
Baltimore, Md., Mercantile Tr. & Dep. Co	250,000	4,784.50
Baltimore, Md., Merchants-Mechanics National Bank	250,000	4,784.50
Baltimore, Md., Natl. Bank of Commerce	225,000	4,306.05
Baltimore, Md., National Exchange Bank	10,000	191.38
Baltimore, Md., National Marine Bank	25,000	478.45
Baltimore, Md., Safe Dep. & Trust Co	500,000	9,569.00
Baltimore, Md., Seaboard Bank	15,000	287.07
Baltimore, Md., Union Trust Co	25,000	478.45
Barney, Chas. D. & Co. [N. Y. brokers]	250,000	4,784.50
Bartlett Hayward Company [structural work, sugar machinery, war contracts]	100,000	1,913.80
Bath, N. Y., Bath National Bank	10,000	191.38
Bayonne, N. J., Mechanics Trust Co. of N. J	45,000	861.21
Bayside, L. I., Bayside National Bank	25,000	478.45
Beaver, Pa., Beaver Trust Co	20,000	382.76
Becker, B. V	50,000	956.90
Begg, Ralph A	6,000	114.83
Belmont & Co., August [brokers]	100,500	1,923.36
Bernhard, Scholle & Co. [brokers, N. Y.]	232,300	4,445.26
Berwind, E. J. [Republic Iron & Steel]	500,000	9,569.00
Beyer & Co. [brokers, N. Y.]	25,000	478.45
Bickmore & Co., A. H., a/c Martin H. Blehn [light and power]	5,000	95.69
Birch, Stephen [copper]	50,000	956.90
Birdsboro, Pa., First National Bank	10,000	191.38
Blair & Company [securities]	400,000	7,655.20
Bliss Company, E. W	1,000,000	19,138.00
Bloomsburg, Pa., Bloomsburg Natl. Bank	5,000	95.69
Blue Ball, Pa., Blue Ball Natl. Bank	5,000	95.69
Boissevain & Co. [brokers, N. Y.]	122,000	2,334.84
Bonbright & Co., W. P. [brokers, N. Y.]	1,335,900	25,566.45
Bonbright & Co., W. P., a/c clients [light and power]:		
Natl. Iron Bank, Pottstown, Pa	10,000	191.38
New Haven Bank, New Haven, Conn	125,000	2,392.25
Union Trust Co., Harrisburg, Pa	15,000	287.07
Old Natl. Bank, Battle Creek, Mich	1,000	19.14
Bond & Goodwin [brokers, N. Y.]	100,100	1,915.71
Boocock, S. W. [banking]	300,000	5,741.40
Boston, Mass., American Trust Co.:		
A/c General Electric Co. [war contracts]	150,000	2,870.70
Boston, Mass., Metropolitan Trust Co	25,000	478.45
Boston, Mass., Natl. Shawmut Bank:		
A/c General Electric Co	150,000	2,870.70
Boston, Mass., Old Colony Trust Co.:		
A/c General Electric Co	300,000	5,741.40
Bowers, John, M [lawyer, N. Y.]	100,000	1,913.80
Branwell, W. Va., Bank of Branwell	150,000	2,870.70
Brawner, Alex. H	50,000	956.90
Breed, Elliott & Harrison [stock broker, Chicago]	172,000	3,291.74
Breese, Jas. L. [Interlocking Rail Joint Corp.]	50,000	956.90
Brent, Noxon & Co	10,000	191.38
Bridgeport, Pa., Bridgeport Natl. Bank	15,000	287.07
Bridgeport, Conn., Bridgeport Trust Co	1,000	19.14
Bridgeport, Conn., First Bridgeport National Bank	30,000	574.14
Stratford, Conn., Stratford Trust Co., (through First Bridgeport Natl. Bank)	5,000	95.69
Brogan, Hugh J	1,000	19.14
Brooklyn, N. Y., Nassau Natl. Bank	165,000	3,157.77
Brooklyn, N. Y., Peoples Trust Co	200,000	3,827.60
Brooks, H. W	28,000	535.86
Brookville, Ind., Natl. Brookville Bank	3,000	57.41
Brown & Sons, Alex., Baltimore, Md	340,000	6,506.92
Brown Bros. & Co. [brokers, N. Y.]	3,301,000	63,231.95
Brown Bros. & Co. a/c clients, Boatmens Bank, St. Louis, Mo	100,000	1,913.80
Brownsville, Tenn., First National Bank	10,000	191.38
Buckner, Walker	25,000	478.45
Buffalo, N. Y., Bank of Buffalo	281,000	5,377.78
Buffalo, N. Y., Bankers Trust Co	9,000	172.24
Buffalo, N. Y. Commonwealth Trust Co	26,000	497.58
Callaway, Fish & Co. [broker Taylor Wharton Iron & Steel Co., war contracts]	462,400	8,849.41

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Cambridge, O., Central Natl. Bank (H. F. & Co.)	$10,000	$191.38
Canandaigua, N. Y., County National Bank	30,000	574.14
Canandaigua, N. Y., Canandaigua Natl. Bank	2,000	38.28
Carse, Henry R., 5 Nassau St. [Electric Boat]	50,000	956.90
Carter, C. L	5,000	95.69
Carthage, N. Y., Natl. Exchange Bank	20,000	382.76
Cassell, Sir Ernest	2,500,000	47,845.00
Cato, N. Y. First Natl. Bank	3,200	61.24
Chadbourne, T. L. [lawyer]	150,000	2,870.70
Chapal, Antonin [fur dyeing, insurance, etc.]	10,000	191.38
Charleston, S. C., Peoples Natl. Bank	15,000	287.07
Charlotte, N. C., Union Natl. Bank	25,000	478.45
Chase, Morris W	1,000	19.14
Cheyenne, Wyo., Stock Growers Natl. Bank	46,000	880.35
Chicago, Ill. Central Tr. Co. of Ill	231,000	4,420.88
Childs & Co., C. F	200,000	3,827.60
Cincinnati, O., First Natl. Bank	850,000	16,267.30
Clark, Wm	20,000	382.76
Clark, Dodge & Co [brokers, N. Y.]	622,700	11,917.23
Clearfield, Pa., County Natl. Bank	50,000	956.90
Cleveland, O., Natl. Commercial Bank	100,000	1,913.80
Cleveland, O., Union Natl. Bank	265,000	5,071.57
Clews & Co., Henry [Wright Aeronautical Co.]	600,000	11,482.80
Clinton, N. Y., Hayes National Bank	5,000	95.69
Cogswell, Geo. D	1,000	19.14
Colgate Parker & Co. [oil brokers, N. Y.]	166,000	3,176.91
Colt Patent Fire Arms Co	200,000	3,827.60
Columbus, O., City National Bank	100,000	1,913.80
Columbus, O., Commercial Natl. Bank	25,000	478.45
Cooper, H. D	50,000	956.90
Cooperstown, N. Y., First Natl. Bank	15,000	287.07
Cox & Sharp [brokers, N. Y.]	29,000	555.00
Cressona, Pa., First Nat. Bank	5,000	95.69
Crocker, Wm. H	500,000	9,569.00
Curtiss Motor Company	200,000	3,827.60
Curtis & Sanger	50,000	956.90
Curtis & Sanger, Chicago (N. W. H. & Co.) [brokers, Chicago]	25,000	478.45
Danbury, Ct., City Natl. Bank	50,000	956.90
Danbury, Ct., Danbury Natl. Bank	10,000	191.38
Dauger, August	10,000	191.38
Davis, John H., & Co., [brokers, N. Y.]	25,000	478.45
Day, Katherine	2,000	38.28
Day & Heaton, a/c James I. Barr [brokers, N. Y.]	5,000	95.69
Day & Heaton [broker, N. Y.]	500,000	9,569.00
Deep River, Conn., Deep River Natl. Bank	11,000	210.52
DeJonge, S. [mfr. papers]	50,000	956.90
Denike, E. H	58,200	1,113.83
Detroit, Mich. First & Old Detroit National Bank	1,435,000	27,463.03
Detroit, Mich., First & Old Detroit National Bank, a/c clients, Peoples Natl. Bank, Jackson, Mich	10,000	191.38
Lowell State Bank, Lowell, Mich	5,000	95.69
Second Natl. Bank, Saginaw, Mich	500,000	9,569.00
Detroit, Mich., Union Trust Co	100,000	1,913.80
Deutsch Bros	15,000	287.07
Dewing & Co	5,000	95.69
Dix, Alfred P	100,000	1,913.80
Dold Packing Co., J. [meat packers]	10,000	191.38
Dominick Bros. & Co. [stock brokers, N. Y.]	65,000	1,243.97
Dominick & Dominick [Am. Linseed Co., Union Oil Co., United Alloy Steel]	61,500	1,176.99
Dominick & Dominick, a/c clients:		
Second Natl. Bank, Redbank, N. J	50,000	956.90
Dover Plains, N. Y., Dover Plains National Bank [broker, N. Y.]	5,000	95.69
Dreyfus, Louis G	3,000	57.41
Du Pont de Nemours & Company, E. I	25,000,000	478,450.00
Du Val. H. C., & Co. [street, lights, etc., Iron Silver Mining Co.]	35,000	669.83
Earle, E. P. [mining coronet phosphate & rail, consolidated, etc.]	50,000	956.90
East Aurora, N. Y., First Natl. Bank	20,000	382.76
East Downington, Pa., Downington National Bank	5,000	95.69
East Hampton, Conn., East Hampton Bank & Trust Company	3,000	57.41
Eastman Dillon & Co. [brokers]	2,000	38.28
East Orange, N. J., Peoples Bank of East Orange	25,000	478.45
East Orange, N. J., Savings Investment & Trust Company	25,000	478.45
Ebensburg, Pa., First Natl. Bank	10,000	191.38
Edmeston, N. Y., First National Bank	5,000	95.69
Edwards & Sons, A. G. A/c Third Natl. Bank, St. Louis, Mo	150,000	2,870.70
Edward & Sons, A. G., A/c American Tr. Co., St. Louis, Mo. [stock brokers]	100,000	1,913.80

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Eldred, Pa., First Natl. Bank	$10,000	$191.38
Eldredge, A. B	1,000	19.14
Electric Boat Co	1,500,000	28,707.00
Elizabeth, N. J., Natl. State of Elizabeth	50,000	956.90
Ellenville, N. Y., First Natl. Bank	25,500	488.02
Ellenville, N. Y., Home Natl. Bank	30,000	574.14
Elmira, N. Y., Chemung Canal Trust Co	45,000	861.21
Elmira, N. Y., Second Natl. Bank	15,000	287.07
Emanuel Parker & Co. [120 Brway., investments]	87,200	1,668.83
Englewood, N. J., Palisade Trust & Guaranty Co	60,000	1,148.28
Eustis, John E. [with Babcock & Wilcox (boilers)]	10,000	191.38
Eveleth, Minn., First Natl. Bank	5,000	95.69
Fanshawe, Wm. S. [brokers]	250,000	4,784.50
Ferlaino, John	12,000	229.66
Fiero, R. H. & Company [stock broker]	10,000	191.38
Fiske & Sons, Harvey [stock broker]	770,000	14,736.26
Fleishhacker, Herbert	150,000	2,870.70
Flint, Mich., Genessee County Savings Bk	20,000	382.76
Forgan, James B	125,000	2,392.25
Foster & Adams [stock brokers]	30,000	574.14
Fowler, Dr. Robert H	10,000	191.38
Francis Bro. & Co	98,000	1,875.52
Francis Bro. & Co. A/c Union Tr. Co	10,000	191.38
Frankfort, N. Y., Citizens Natl. Bank	5,000	95.69
Franklin, P. A. S. [Int. M. Marine Co., N. Y. Ship]	10,000	191.38
Freeman & Co. [stock broker]	40,000	765.52
French, F. H	25,000	478.45
French, Geo. B	25,000	478.45
Frick, H. C. [U. S. Steel, war contracts]	1,000,000	19,138.00
Fultonville, N. Y., Fultonville Natl. Bank	5,000	95.69
Gaddis, Edgar T	3,000	57.41
Garrett, Pa., First Natl. Bank	5,000	95.69
Garrett, Robert & Sons [brokers, Balt.]	315,000	6,028.47
General Education Board, the	400,000	7,655.20
Gill & Fisher	25,000	478.45
Gillespie, Livingston & Co. [brokers, N. Y.]	50,000	956.90
Glasgow, James A	3,000	57.41
Gleason, James E	10,000	191.38
Glens Falls, N. Y., First Natl. Bank	11,300	216.26
Goadby & Co., W. H. [Linotype—Sloss Sheffield Steel Co.]	341,000	6,526.06
Goldsmith, Reuben	10,000	191.38
Goldman, Samuel P. [lawyer]	10,500	200.95
Goldring, Paul	1,800	34.45
Goodbody & Co. [Marconi Wireless brokers]	110,000	2,105.18
Goodwin, Francis	50,000	956.90
Gorgin, Walter	1,000	19.14
Graham, John H. & Co. [113 chambers]	12,500	239.22
Graham, Hinckley & Co	100,000	1,913.80
Grand Rapids, Mich., Michigan Tr. Co	50,000	956.90
Grand Rapids, Mich., Old Natl. Bank	225,000	4,306.05
Green, Asher	1,000	19.14
Groesbeck & Co. [brokers, N. Y.]	25,000	478.45
Groton, N. Y., Mechanics Bank	10,000	191.38
Guggenheim, Daniel [copper]	2,500,000	47,845.00
Guillet, Cephas	500	9.57
Gunn, George M	35,000	669.83
Guthrie, William D. [lawyer, N. Y.]	100,000	1,913.80
Goodhart & Co., P. J. [U. S. Cast Iron Pipe Co., brokers, war contract]	100,000	1,913.80
Hackensack, N. J., Peoples Natl. Bank	15,000	287.07
Halle & Stieglitz [brokers, N. Y.]	23,000	440.17
Hallgarten & Co. [brokers, N. Y.]	832,100	15,924.73
Hallgarten & Co., a/c clients:		
Bank of Hicksville	25,000	478.45
Lawyers Title & Trust Co	9,500	181.81
Halsey & Co., N. J. [brokers, N. Y.]	64,500	1,234.40
Halsted & Harrison [brokers, N. Y.]	13,700	262.19
Hambleton & Co. [brokers, N. Y.]	58,500	1,119.57
Harper, Martha Matilda	4,000	76.55
Harrisburg, Pa., Commonwealth Trust Co	10,000	191.38
Harrisburg, Pa., Mechanics Trust Co	5,000	95.69
Harris, Forbes & Co [brokers, N. Y.]	2,299,700	44,011.66
a/c Farmers Trust Co., Lancaster, Pa	25,000	478.45
a/c Guarantee Trust & Safe Deposit Co., Shamokin, Pa	2,000	38.28
a/c Seacoast Nat. Bank, Asbury Park, N. J	5,000	95.69
a/c Elk County National Bank, Ridgway, Pa	10,000	191.93
Hartford, Conn., Conn. Tr. & Safe Dep. Company	170,000	3,253.46
Hartford, Conn., First Natl. Bank	125,000	2,392.25

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Hartford, Conn., Hartford-Aetna Natl. Bank	$500,000	$9,569.00
Hartford, Conn., National Exchange Bank	25,000	478.45
Hartford, Conn., Phoenix Natl. Bank	400,000	7,655.20
Hartford, Conn., State Bank & Trust Co	20,000	382.76
Haughton & Lee	10,000	191.38
Hawkesworth, A. S	2,000	38.28
Hawley, W. C	1,000	19.14
Hathorne, E. J	5,000	95.69
Hart, Steam Boiler Insp	50,000	956.90
Hayden, Miller & Co	20,000	382.76
Heidelbach, Ickelheimer & Co	300,000	5,741.40
Hercules Powder Co	3,000,000	57,414.00
Herrick & Bennett [brokers, N. Y.]	10,000	191.38
Herrick, Berg & Co. [(Walter R. Herrick), brokers, N. Y., Ky. Petroleum, Lee Tire]	30,000	574.14
Herzfeld & Stern [brokers, N. Y.]	22,100	422.95
Hess & Hess [(Arthur M. Hess) brokers, N. Y.]	25,000	478.45
Higgins, Mary L	20,000	382.76
Hilliard, F. C	15,000	287.07
Hincks Bros	12,000	229.66
Hirsch, Lilienthal & Co. [(Chas. S. Hirsch & Jos. L. Lilienthal) brokers, N. Y.]	10,000	191.38
Holloway, Dr. J. Morgan	2,000	38.28
Holmes, A. B	1,000	19.14
Hooley & Co., Edwin S. [brokers, N. Y.]	75,000	1,435.35
Hooper, R. H. & Co	30,000	574.14
Hopewell, N. J., Hopewell Natl. Bank	10,000	191.38
Hopkins, James [real estate?]	31,000	593.28
Howard, Clarence H	15,000	287.07
Hoyt & Co., Colgate [Canada Copper, Cuba Coffee, mines, &c., U. S. Cast Iron Pipe]	20,000	382.76
Hudson & Co., C. I. [brokers, N. Y.]	20,500	392.33
Hudson, N. Y., First Natl. Bank	25,000	478.45
Huhn & Sons, Geo. A. [brokers, N. Y.]	50,000	956.90
Hungerford Brass & Copper Co., U. T. [war contracts]	250,000	4,784.50
Hastings-on-Hudson, N. Y.-First Natl. Bank	5,000	95.69
Herzog & Glazier [brokers, N. Y.]	5,000	95.69
Imbrie & Co., Wm. Morris [Cambria Fuel Co., Foundation Oven Co.]	274,000	5,243.81
Imbrie & Co., Wm. Morris, a/c clients:		
First Natl. Bank, Huntington, Pa	10,000	191.38
First Natl. Bank, Millersburg, Pa	5,000	95.69
Commonwealth Trust Co., Harrisburg, Pa	10,000	191.38
Commonwealth Trust Co., Harrisburg, Pa	10,000	191.38
Yonkers Natl. Bank, Yonkers, N. Y	10,000	191.38
Bronx Borough Bank, Bronx, N. Y	25,000	478.45
International Nickel Co	1,000,000	19,138.00
Inland Steel Co. [Inland Malleable Iron & Steel Co.]	100,000	1,913.80
International Steel & Ordnance Co	1,500,000	28,707.00
Iselin & Co., A. [Adrian, Ernest, Lewis, coal & iron brokers, N. Y.]	700,000	13,396.60
Jackson, Mich., Union Bank	25,000	478.45
Jackson, Miss., First Natl. Bank	20,000	382.76
Jacobi & Co., Andre [brokers, N. Y.]	100,000	1,913.80
Jeffery Co., Thos. B	100,000	1,913.80
Jefferson Banking Co., Jefferson, O	10,000	191.38
Jurgesen, Egbert	40,000	765.52
Kean, Taylor & Co. [5 Nassau, H. F. Kean, securities brokers, N. Y.]	866,500	16,583.08
Keech, F. B. & Co. [real est. & brokers]	62,000	1,186.56
Keech & Co., F. B. [real est. & brokers]	245,000	4,688.81
Kelley, John J	25,000	478.45
Kelly, Howell & Co	287,000	5,492.61
Keys, C. M. [Curtiss Aeroplane & Co., brokers, N. Y., Curtiss Eng. Co.]	750,000	14,353.50
Kidder & Co., A. M. [brokers, N. Y.]	200,000	3,827.60
Kidder, Peabody & Co. [(Edwin S. Webster, Jr.) copper still]	1,010,200	19,333.21
Kingsford, Daniel	7,000	133.97
Kingston, O., First Natl. Bank	25,000	378.45
Kissel, Kinnicutt & Co. [Marlin Arms Corp., bankers, Chicago]	2,594,800	49,659.28
Knapp, H. K. [61 Bway. ferry]	50,000	956.90
Kountze Bros. [brokers, N. Y.]	350,000	6,698.30
Kraus Bros. Co. [brokers, N. Y.]	50,000	956.90
Krussi, Walter E	1,000	19.14
Kuhn, Edward	10,000	191.38
Kidder, Peabody & Co., Boston, Mass. [broker]	19,756,300	378,096.07
Laidlaw & Co. [James L. Laidlaw, brokers, N. Y.]	558,000	10,679.00
Ladenburg, Thalman & Co. [brokers, N. Y.]	1,284,100	24,575.11
Lake Placid, N. Y., Bank of Lake Placid	10,000	191.38
Lambertville, N. J., Lambertville Natl. Bank	10,000	191.38
Lancaster, Pa., Guaranty Trust Co	5,000	95.69

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Lancaster, Pa., Lancaster Trust Co	$25,000	$478.45
Lauer & Co., Wm. E. [brokers, N. Y.]	250,000	4,784.50
Lawrence & Sons, Cyrus J., [brokers, N. Y.]	356,000	6,813.13
Lazard Freres [brokers, N. Y.]	300,000	5,741.40
Leach & Company, A. B. [coal and oil brokers, N. Y.]	910,000	17,415.58
Leach & Co., A. B. A/c Clients Little Falls Natl. Bank, Little Falls	10,000	191.38
Lee, Higginson & Co., Chicago, Ill	2,965,600	56,755.65
Lee, Higginson & Co., Boston, Mass	16,200,900	310,052.82
Lee, Higginson & Co., New York, N. Y. [brokers]	3,081,200	58,968.01
Lehman Bros. [Studebaker Continental Can]	200,000	3,827.60
Lestershire, N. Y., First Natl. Bank	10,000	191.38
Lieval, Constance J	21,000	401.90
Lincoln, Robert T	100,000	1,913.80
Litchfield, Conn., First Natl. Bank	25,000	478.45
Lititz Spgs., Pa., Lititz Spgs. Natl. Bank	5,000	95.69
Livingston & Co. [Crawford Livingston, broker, N. Y.]	160,000	3,062.08
Locke, D. B	3,000	57.41
Locke, H. E. [H. E. Locke & Co., Boston govt. contract]	5,000	95.69
Loew, Charles E	40,000	765.52
Louisville, Ky., United States Trust Co	28,000	535.86
Low, Hon., Seth	2,000	38.28
Low, Dixon & Co. [Josiah Low, Liberty Motor Car Co. brokers, N. Y.]	23,500	449.74
Luke, Banks & Weeks [brokers, N. Y.]	100,000	1,913.80
Lyons Piece Dye Works [Govt. contract]	10,000	191.38
McCurdy Henderson & Co. [brokers, N. Y.]	250,000	4,784.50
McLachlen Banking	3,300	63.15
McLane, Miss Kate	5,000	95.69
McLaren, Virginia C	140,000	2,679.32
Machay & Co	100,000	1,913.80
Madison, Indiana, Natl. Branch Bank	40,000	765.52
Madison, N. J., First National Bank	8,000	153.10
Mahaud, Frncoine	1,000	19.14
Mahoney, J. H	20,000	382.76
Maitland, Coppell & Co. [brokers, N. Y.]	500,000	9,569.00
Manheim, Pa., Manheim Natl. Bank	15,000	287.07
Mann, Bill & Co. [brokers, N. Y.]	183,000	3,502.25
Manning, John B. [brokers, N. Y.]	500,000	9,569.00
Markoe & Morgan	22,000	421.04
Marks, M	10,000	191.38
Marks, Rosalie	900	17.22
Maryland Casualty Co	50,000	956.90
Meyer, Eugene, Jr., & Co. [brokers, N. Y.]	200,000	3,827.60
Middletown, Conn., Central Natl. Bank	5,000	95.69
Middletown, Conn., Middletown Natl. Bank	15,000	287.07
Middletown, N. Y., Merchants Natl. Bank	10,000	191.38
Middletown, N. Y., Orange Co. Trust Co	60,000	1,148.28
Miller, Geo. H	5,000	95.69
Miller, Howard J	1,000	19.14
Miller & Co. [brokers, N. Y.]	14,000	267.93
Millett, Roe & Hagen [Nat. Conduit Co., brokers, N. Y.]	89,000	1,703.28
Mills, A. L	100,000	1,913.80
Minneapolis, Minn., Northwestern Nat. Bk. a/c First & Security National Bank, Minn	400,000	7,655.20
Minneapolis, Minn., Northwestern National Bank	1,150,000	22,008.70
Minneapolis, Minn., Scandinavian American Natl. Bank	250,000	4,784.50
Monell, Ambrose	200,000	3,827.60
Montclair, N. J., Essex Title Guarantee & Trust Co	5,000	95.69
Montclair, N. J., First. Natl. Bank	75,000	1,435.35
Montgomery, Clothier & Tyler	138,400	2,648.70
Montgomery, Clothier & Tyler, a/c clients [brokers, Phil.]:		
Natl. Bank of Germantown, Phila., Pa	25,000	478.45
Pitman Natl. Bank, Pitman, N. J	10,000	191.38
First Natl. Bank, Bloomsburg, Pa	10,000	191.38
Moore, Walter	10,000	191.38
Morgan & Co., J. P.,		
Morgan & Co., J. P., a/c clients:		
Bessemer Investment Co	1,000,000	19,138.00
Burns, Mary L	100,000	1,913.80
Planters Bank, Clarksdale, Miss	25,000	478.45
Davis, Norman H	25,000	478.45
Drexel & Company	8,766,200	167,767.54
Emery, Peck & Rockwood	15,000	287.07
Garey, W. L	200,000	3,827.60
Goodwin, Josephine S	100,000	1,913.80
Howland, Adelaide	50,000	956.90
Huddleston, J. H	3,000	57.41

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Morgan & Co., J. P., a/c clients—Continued.		
Isaacs, Miss Marion B	$1,000	$19.14
Kennecott Copper Corporation	2,000,000	38,276.00
Knapp, K. K	5,000	95.69
Krumb, Henry	10,000	191.38
Miller, A. P	10,000	191.38
Morgan, Grenfell & Co. a/c trustees Walter Burns	74,800	1,431.52
Morgan Harjes & Co., cable no. 10377	2,000	38.28
Morgan, Harjes & Co., cable no. 10378	13,000	248.79
Morgan, Harjes & Co., cable no. 10389	9,000	172.24
Lord Farquhar	15,600	298.55
H. R. H. Louise & Lord Farquhar	37,300	713.85
Morgan, Harjes & Co., cable no. 10368	7,200	137.79
Edouard Noetzlin	100,000	1,913.80
Patenotre, Eleanor	20,000	382.76
Estate Sarah Spencer Morgan	100,000	1,913.80
Morgan, Junius S	50,000	956.90
Junius S. Morgan, Jr	2,000	38.28
Northwestern Commercial Co	100,000	1,913.80
Morgan, J. P	16,000	306.21
Odd lots	538,700	10,309.64
O'Dell, Mrs. Gertrude, W	15,000	287.07
Perkins, George W	100,000	1,913.80
Rotterdamsche Bankvering	25,000	478.45
Rowley, Owsley Vincent	5,000	95.69
Russell, Brewster & Co	20,000	382.76
Savannah Bank & Trust Co	10,000	191.38
Smith, F. H. & Co	6,500	124.40
Stokes & Co., Walter C	9,000	172.24
Timmins, Edward M	10,000	191.38
White, Miss Carmel	3,000	57.41
Wigley, Joseph B	3,500	66.98
Mt. Vernon Ladies Assn., Arthur T. Brice, treas	5,000	95.69
Murphy, Starr J	2,000	38.28
Mt. Union, Pa., First National Bank	10,000	191.38
Nashville, Tenn., Fourth & First Natl. Bank	210,000	4,018.98
Nesbitt, Thomson Co., Ltd	20,000	382.76
Newark, N. J., North Ward Natl. Bank	75,000	1,435.35
Newark Valley, N. Y., First Natl. Bank	3,000	57.41
New Brunswick, N. J., Peoples Natl. Bank	25,000	478.45
Newburgh, N. Y., Columbus Trust Co	25,000	478.45
Newburgh, N. Y., Highland Natl. Bank	10,000	191.38
Newburgh, N. Y., Quassaick Natl. Bank	30,000	574.14
New Haven, Ct. Merchants Natl. Bank	34,000	650.69
New Haven, Ct., New Haven Bank	75,000	1,435.35
New Haven, Ct., Second Natl. Bank	71,000	1,358.80
New Haven, Ct., Union & New Haven Tr. Co	10,000	191.38
New Orleans, La., Interstate Trust & Banking Co	25,000	478.45
New York City, Bank of Montreal	298,900	5,720.35
New York, Merchants Bank of Canada	50,000	956.90
New York, Royal Bank of Canada	450,000	8,612.10
New York, Astor Trust Co	1,250,000	23,922.50
New York, Bank of America	500,000	9,569.00
New York, Bank of Metropolis	500,000	9,569.00
New York, Bank of N. Y. N. B. A	2,599,000	49,739.66
New York, Broadway Trust Co	28,100	537.78
New York, Central Trust Co	1,165,000	22,295.77
New York, Chase Natl. Bank	3,280,900	62,789.86
New York, Chemical Natl. Bank	1,500,000	28,707.00
New York, Citizens Cent. Natl. Bank	138,500	2,650.61
New York, Columbia Trust Co	525,000	10,047.45
New York, Columbia Trust Co., a/c Security Trust Co., Troy	25,000	478.45
New York, Commercial Trust Company	200,000	3,827.60
New York, Empire Trust Co	500,000	9,569.00
New York, Fifth Avenue Bank	700,000	13,396.60
New York, Equitable Trust Co	1,014,000	19,405.93
New York, First Natl. Bank	11,588,000	221,771.14
New York, Franklin Trust Co	54,600	1,044.93
New York, Guaranty Trust Co	7,936.100	151,881.08
New York Guaranty Trust Co., a/c clients:		
Citizens Tr. Co., Utica, N. Y	101,000	1,932.94
Salamanca Trust Co	15,000	287.07
New York, Hanover Natl. Bank	3,000,000	57,414.00
New York, Harriman Natl. Bank	500,000	9,569.00
New York, Harriman Natl. Bank thru Kissel, Kinnicutt & Co	56,400	1,079.38
New York, Importers & Traders Natl. Bk	500,000	9,569.00

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
New York, Irving National Bank	$1,636,400	$31,317.42
New York, Lawyers Title & Tr. Co	300,000	5,741.40
New York, Lawyers Title & Trust Co	57,400	1,098.52
New York, Liberty Natl. Bank	4,458,300	85,322.95
New York, Lincoln Trust Co	25,000	478.45
New York, Manhattan Company	3,000,000	57,414.00
New York, Market & Fulton Natl. Bank	200,000	3,827.60
New York, Mechanics & Metals Natl. Bank	4,500,000	86,121.00
New York, Merchants Natl. Bank	454,900	8,705.88
New York, Metrolitan Trust Co	3,105,000	59,423.49
New York, Metropolitan Trust Co., Adirondack Trust Co	125,000	2,392.25
New York American Exchange Natl. Bank	4,900,000	93,776.20
New York, Natl. Bank of Commerce	3,500,000	66,983.00
New York, Natl. Bank of Commerce a/c clients	2,003,900	38,350.64
New York, National City Bank	17,686,200	338,478.50
New York, National City Bank a/c clients, Montgomery County Tr. Co	89,000	1,703.28
New York Mutual Bank	299,000	5,722.26
New York City, Natl. City Co	3,000,000	57,414.00
New York, Bankers Trust Co	7,597,400	145,399.04
New York, National Conduit Cable Co. [contracts]	2,500,000	47,845.00
New York National Park Bank	2,245,300	42,970.55
New York, N. Y. County Natl. Bank	100,000	1,913.80
Newborg & Co	108,000	2,066.90
Newburger, Henderson & Loeb	225,500	4,315.62
New York, N. Y. Produce Exchange Bank	100,000	1,913.80
New York, N. Y. Trust Co	1,400,000	26,793.20
New York, Seaboard Natl. Bank	94,600	1,810.45
New York, State Bank	500,000	9,569.00
New York, Title Guarantee & Tr. Co	1,000,000	19,138.00
New York, Union Trust Co	1,000,000	19,138.00
New York, U. S. Mtge. & Trust Co	500,000	9,569.00
New York, U. S. Trust Co	175,500	3,358.72
New York, Westchester Ave. Bank	17,000	325.35
Niagara Falls, N. Y	110,000	2,105.18
Norfolk, Va., Natl. Bank of Commerce	250,000	4,784.50
Do	250,000	4,784.50
Norristown, Pa., Peoples Natl. Bank	10,000	191.38
Norwich, N. Y., Chenango Natl. Bank	10,000	191.38
Oneida, N. Y., Madison Co. Tr. & Dep. Co	25,000	478.45
Orange, N. J., Orange Natl. Bank	100,000	1,913.80
Orange, N. J., Trust Co. of Orange	100,000	1,913.80
Oriskany Falls, N. Y., First Natl. Bank	5,000	95.69
Oxford, N. Y., First Natl. Bank	10,000	191.38
Paterson, N. J., Citizens Tr. Co	23,000	440.17
Peabody, Charles A. [insurance]	1,000,000	19,138.00
Peekskill, N. Y., Peekskill Natl. Bank	25,000	478.45
Pell, Herbert C	100,000	1,913.80
Penns Grove, N. J., the Penns Grove Natl. Bk	5,000	95.69
Pfotaheimer & Co., Carl H. [brokers]	50,000	956.90
Philadelphia, Pa., Commonwealth Title Insurance & Trust Co	25,000	478.45
Philadelphia. Pa., Logan Trust Co	20,000	382.76
Phillips, Leo F	5,000	95.69
Phillips, Leo F., a/c Mrs. Chapman	2,500	47.84
Phillips, Leo F., a/c G. N. Vreeland	2,500	47.84
Phipps, L. C	100,000	1,913.80
Pierce, Winslow S	50,000	956.90
Pigot, Edward N	10,000	191.38
Pittsburgh, Pa., Union Tr. Co	11,832,000	226,440.82
Plattsburg, N. Y., Merchants Natl. Bank	25,000	478.45
Port Allegany, Pa., First Natl. Bank	10,000	191.38
Porter, W. B	2,000	38.28
Portland, Oreg., Bank of California	15,000	287.07
Port Richmond, N. Y., Port Rich. Natl. Bank	11,000	210.52
Post & Flagg [brokers, N. Y.]	100,000	1,913.80
Potter, Choate & Prentice [brokers, N. Y.]	568,200	10,874.21
Pouch & Co. [brokers, N. Y.]	52,600	1,006.66
Power Son & Co	150,000	2,870.70
Pratt & Co., Charles	250,000	4,784.50
Prince & Co., L. M. [brokers, N. Y.]	5,500	105.26
Princess Anne, Md., Bank of Somerset	2,000	38.28
Princeton, Ind., Peoples Amer. Natl. Bk	10,000	191.38
Providence, R. I., Industrial Tr. Co	250,000	4,784.50
Providence, R. I., Phoenix Natl. Bank	100,000	1,913.80
Pyne, Kendall & Hollister [brokers, N. Y.]	200,000	3,827.60
Potter, Choate & Prentice, [brokers, N. Y.], a/c Providence, R. I., Natl. Bank of Commerce	100,000	1,913.80
Plattsburg, N. Y., Merchants Natl. Bank	12,200	233.48

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Potter, Choate & Prentice [brokers, N. Y.], a/c Bank of Waynesboro, Waynesboro, Pa	$10,000	$191.38
Quackenbush, Geo	25,000	478.45
Quakertown, Pa., Merchants Natl. Bank	10,000	191.38
Randolph, Edmund & Chas. [brokers, N. Y.]	140,000 99,600	4,585.46
Raymond Pynchon & Co. [brokers, N. Y.]	2,500	47.84
Redmond & Co. [brokers, N. Y.]	915,000	17,511.27
Redwood, N. Y., Redwood Natl. Bank	5,000	95.69
Reeve, Wm. Edgar	2,000	38.28
Remick, Hodges & Co. [(electric boat), N. Y. brokers]	250,800	4,799.81
Remington Arms-Union Metallic Cartridge Co	2,500,000	47,845.00
Renova, Pa., State Bank	5,000	95.69
Rensselear, N. Y., Rensselear County Bank	10,000	191.38
Reynold, Geo. M	50,000	956.90
Rhoades & Company [brokers, N. Y.]	39,400	754.04
Rhoades & Company [brokers, N. Y.]	250,000	4,784.50
Richards, C. A	1,000	19.14
Richardson & Clark	50,000	956.90
Richards, L. O	5,000	95.69
Richardson, Norton & Co. [brokers, N. Y.]	10,000	191.38
Richfield Springs, N. Y., First Natl. Bk	5,000	95.69
Richmond, Va., Bank of Commerce & Trusts	25,000	478.45
Richmond, Va., Natl. State & City Bank	25,000	478.45
Richmondville, N. Y., Bank of Richmondville	5,000	95.69
Riverhead, N. Y., Suffolk Co. Tr. Co	55,000	1,052.59
Rimersburg, Pa., First Natl. Bank	10,000	191.38
Rippel, J. S	50,000	956.90
Read & Co., Wm. A. [brokers, N. Y.]	2,415,600	46,229.75
Robinson & Co. [brokers, N. Y.]	4,000	76.55
Rochester, N. Y., Alliance Bank	366,500	7,014.08
Rochester, N. Y., Central Bank	10,000	191.38
Do	5,000	95.69
Rochester, N. Y., Genesee Valley Tr. Co	50,000	956.90
Rochester, N. Y., Lincoln National Bank	50,000	956.90
Rochester, N. Y., Rochester Tr. & Safe Dep	200,000	3,827.60
Rochester, N. Y., Security Tr. Co	602,000	11,521.08
Rochester, N. Y., Traders Natl. Bank	65,000	1,243.97
Rochester, N. Y., Union Tr. Co	25,000	478.45
Do	50,000	956.90
Rockefeller Foundation	600,000	11,482.80
Rome, N. Y., Rome Trust Co	21,000	401.90
Rose, Henry R	2,000	38.28
Rothschild & Co. [brokers, N. Y.]	25,000	478.45
Rowe, Gaving	20,000	382.76
Rutherford, N. J., Rutherford Natl. Bank	50,000	956.90
Rutland, Vt., Clement Natl. Bank	25,000	478.45
Rutter & Ream [brokers, N. Y.]	78,000	1,492.76
Ryan & Co., Allan A. [brokers, N. Y.]	250,000	4,784.50
Sachs, Harry [real estate]	100,000	1,913.80
Sachs, Samuel [real estate]	150,000	2,870.70
St. John, W. H	2,000	38.28
St. Johnsville, N. Y., First Natl. Bank	10,000	191.38
St. Louis, Mo., Boatmens Bank	100,000	1,913.80
St. Louis, Mo., Mercantile Trust Co	50,000	956.90
St. Louis, Mo., Boatmens Bank	100,000	1,913.80
St. Louis, Mo., Mississippi Valley Tr. Co	10,000	191.38
St. Louis, Mo., National Bank of Commerce	200,000	3,827.60
St. Louis, Mo., St. Louis Union Bank	250,000	4,784.50
St. Paul, Minn., First Natl. Bank	2,400,000	45,931.20
Salem, N. J., Salem Natl. Bank	5,000	95.69
Salisbury, Md., Farmers & Merchants Natl. Bk	20,000	382.76
Salisbury, Md., Salisbury Natl. Bank	10,000	191.38
Salomon Bros. & Hutzler [brokers, N. Y.]	225,000	4,306.05
Salomon & Co., Wm. [brokers, N. Y.]	665,800	12,742.08
Salomon & Co., Wm., a/c Clients [brokers, N. Y.], Michigan Tr. Co., Grand Rapids, Mich	25,000	478.45
Sanifer, Miss Jessie M	5,000	95.69
San Francisco, Calif., Bank of California, N. A	300,000	5,741.40
San Francisco, Calif., French American Bank of Savings	35,000	669.83
Saratoga Springs, N. Y., Citizens Natl. Bk	25,000	478.45
Satterlee, H. L. [lawyer]	5,000	95.69
Savannah, Ga., Chatham Bank & Tr. Co	10,000	191.38
Sayre, Pa., First Natl. Bank	10,000	191.38
Schenectady, N. Y., Citizens Trust Co	1,000	19.14
Schmidt & Gallatin [brokers, N. Y.]	500	9.57

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Scholle Bros. [brokers, N. Y.]	$80,000	$1,531.04
Townsend, Scott & Sons	9,100	174.16
Townsend, Scott & Sons, a/c clients:		
Patapsco Natl. Bank, Ellicott City, Md	10,000	191.38
Scott & Stringfellow	25,000	478.45
Sealy, Thomas	15,000	287.07
Seasongood & Has	50,000	956.90
Seattle, Wash., Natl. Bank of Commerce	25,000	478.45
Seligman & Co., J. & W. [brokers, N. Y., Am. Hide & Leather Co.]	375,900	7,193.97
Semet, Solvay Co. [war contracts, benzol, fisheries, lands, etc.]	100,000	1,913.80
Seymour & Co., Edmund	300	5.74
Shapleigh, A. L	25,000	478.56
Shaw, Frank S [telegraph]	10,000	191.38
Shearson, Hammill & Co. [brokers, N. Y.]	700,000	13,396.60
Shelburne Falls, Mass., Shelburne Falls Natl. Bank	10,000	191.38
Sheridan, Wyo., First Natl. Bank	10,000	191.38
Sidney, N. Y., Peoples Natl. Bank	10,000	191.38
Simpson, Ernest L., New York [Texas port terminals]	15,000	287.07
Simpson, Pearce & Co. [brokers, N. Y.]	12,000	229.66
Skaneateles, N. Y., Natl. Bk. of Skaneateles	7,000	133.97
Smith, Katherine T	3,000	57.41
Smith, Dr. Rufus H. [real estate]	10,000	191.38
Smith, W. T. [Morgan Chemical—Merchants Shipbldg. Co.]	5,000	95.69
Smith-Moore & Co. [brokers, St. Louis]	71,000	1,358.80
Smithers, F. S. [Central Foundry Co.]	100,000	1,913.80
Smithers & Co., F. S. [Central Foundry Co., brokers, N. Y.]	50,000	956.90
Smithport, Pa., Hamlin Bank & Tr. Co	5,000	95.69
Snead & Co., Iron Works [war contracts (777)]	10,000	191.38
Solvay Process Co. [subsid. of Alliea Chem. & Dyl. Co.]	100,000	1,913.80
Southampton, N. Y., First Natl. Bank	5,000	95.69
Spalding, Close & Co. [brokers, N. Y.]	10,000	191.38
Springfield, O., First Natl. Bank	25,000	478.45
Springs & Co. [broker, N. Y.]	25,000	478.45
Steele, John N. [lawyer and director for copper companies]	10,000	191.38
Stemmler, T. W	50,000	956.90
Stemper, Henry	50,000	956.90
Stetson, F. L	100,000	1,913.80
Stettinius, E. R	250,000	4,784.50
Stevens, Harry M	27,000	516.73
Stewartstown, Pa., First National Bank	15,000	287.07
Straight Willard [J. P. M. & Co.]	100,000	1,913.80
Strong, W. E. S. [pres., Meyer, Strong & Jones, Inc.]	17,000	325.35
Strong, Sturgis & Co. [broker, N. Y.]	100,000	1,913.80
Struthers & Hiscoe [broker, N. Y.]	200,000	3,827.60
Studebaker, Corp., The [contracts, U. S.]	1,000,000	19,138.00
Sutro Bros. & Co. [Tennessee Copper-Chemical, broker, N. Y.]	250,000	4,784.50
Sycamore, Ill., Pierce Tr. & Savgs. Bank	5,000	95.69
Syracuse, N. Y., Third Natl. Bank	50,000	956.90
Syracuse, N. Y., Trust & Deposit Co. of Onondaga	25,000	478.45
Sussex, N. J., Farmers National Bank	5,000	95.69
Taylor, Bates & Co. [Am. Malt Grain Co., broker, N. Y.]	25,000	478.45
Tennant Sons & Co	53,000	1,014.31
Thomas, E. E	2,000	38.28
Thompson, W. B. (Sinclair Oil]	500,000	9,569.00
Thompson, William P	10,000	191.38
Thompson, Shonnard & Co. [broker, N. Y.]	8,000	153.10
Tibbitts, Dudley	10,000	191.38
Ticonderoga, N. Y., Ticonderoga Natl. Bank	25,000	478.45
Timothy, W. G. [James McCreery & Co.]	3,000	57.41
Todd, Ambrose G. (lawyer, dir. U. S. Metals Refining Co.]	15,000	287.07
Toledo, O., Second Natl. Bank	250,000	4,784.50
Tomkins, Calvin	1,000	19.14
Tongue, James	4,000	76.55
Tongue, James & Son	7,000	133.97
Tower, Minn., First State Bank	5,000	95.69
Tower & Sherwood	50,000	956.90
Tower City, Pa., Tower City Natl. Bank	10,000	191.38
Trask & Company, Spencer	976,900	18,695.91
Trask & Company, Spencer a/c clients:		
First Natl. Bank, Port Jefferson, N. Y	50,000	956.90
Mechanics Natl. Bank, Worcester, Mass	50,000	956.90
Nat. Bank of Montgomery, Montgomery, N. Y	3,000	57.41
Pittsfield Natl. Bank, Pittsfield, Mass	10,000	191.38
Lancaster Natl. Bank, Lancaster, N. H	10,000	191.38
Traylor, M. A. [of Chicago]	175,000	3,349.15
Troiani, Camillo	8,000	153.10

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NOTE.—Pencil notations enclosed in brackets.

Participation list—Continued

ANGLO-FRENCH 5-YEAR 5% EXTERNAL LOAN BOND SYNDICATE—BONDS WITHDRAWN FROM SYNDICATE—Continued

Name	Participation	Profit **
Troy, N. Y., National City Bank	$31,000	$593.28
Troy, N. Y., Security Trust Co	10,000	191.38
Troy, Pa., First Natl. Bank	10,000	191.38
Turnure & Co., Lawrence (insurance brokers, N. Y.]	125,000	2,392.25
United States Cartridge Company (U. S. contracts]	871,000	16,669.20
Van Antwerp, Bishop & Co. (stock brokers, N. Y.]	50,000	956.90
Vanderbilt, Cornelius [Lackawanna Steel—recoil gun]	100,000	1,913.80
Van Emburgh & Atterbury (brokers, N. Y.]	506,000	9,683.83
Ventnor City, N. J., Ventnor City Natl. Bk	10,000	191.38
Vickers & Phelps (brokers, N. Y.]	50,000	956.90
Virginia, Minn., American Exchange Bank	10,000	191.38
Vermilion, O., Erie County Banking Co	10,000	191.38
Wade, T. W. (realty]	20,000	382.76
Wade, Templeton & Co. (brokers, N. Y.]	2,000	38.28
Wainwright, W. P. (broker, N. Y.]	20,000	382.76
Walker & Sons, Joseph (banks & R. R.)	40,000	765.52
Walker Bros. (broker, N. Y.]	55,000	1,052.59
Wall, Thos. D	1,000	19.14
Wallingford, Ct., First Natl. Bank	10,000	191.38
Walters, William I. [Lawyers Mtge. Co.]	25,000	478.45
Walters, Henry [Pen & Occidental S. S. Co., Vir. Car. Chem. Co.]	25,000	478.45
Washington, D. C., Natl. Metropolitan Bank	28,000	535.86
Waterbury, Ct., Citizens Natl. Bank	25,000	478.45
Waterbury, Ct., Waterbury Natl. Bank	350,000	6,698.30
Waterbury, Ct., Colonial Tr. Co	70,000	1,339.66
Watkins, N. Y., Glen Natl. Bank	1,500	28.71
Waverly, Pa., Bank of Waverly	8,000	153.10
Waverly, N. Y., Citizens Bank	10,000	191.38
Weeks, Frederick T. [Standard]	10,000	191.38
Weill, Geo. W	15,000	287.07
Wells, Louis H	2,000	38.28
Westminster, Md., Farmers & Mechanics Natl. Bk	10,000	191.38
Westminster, Md., First Natl. Bank	10,000	191.38
West Orange, N. J., First Nat. Bank	21,500	411.47
Wheeler, Frederick R	5,500	105.26
White, Horace	5,000	95.69
White Company, The	500,000	9,569.00
White, Weld & Co. [Baldwin Locomotive, brokers, N. Y.]	1,018,000	19,482.48
Whitney, E. F	100,000	1,913.80
Wiggin, Albert H. [prest., Chase Nat. Am. Locomotive, copper, paper, steel, Am. Sugar]	305,000	5,837.09
Wiggin, Carl E	1,200	22.97
Wilkes-Barre, Pa., Second Natl. Bank	25,000	478.45
Williams & Sons, John L	8,000	153.10
Williams, Nicholas & Moran [brokers, N. Y.]	13,000	248.79
Williamsport, Pa., Susquehanna Tr. & Safe Deposit Company	10,000	191.38
Willoughby, Laura	4,000	76.55
Wilson, James G	10,000	191.38
Wing, Charles M	20,000	382.76
Wolff, Nathan	10,000	191.38
Wood, Struthers & Co. [brokers, N. Y.]	300,000	5,741.40
Woodsboro, Md., Woodsboro Savings Bank	5,000	95.69
Warren, Pa., Warren Savings Bank	25,000	478.45
Yale & Towne Mfg. Co. [war contracts]	500,000	9,569.00
Yonkers, N. Y., Yonkers Natl. Bank	40,000	765.52
Young, Arthur	100,000	1,913.80
Total	296,366,200	5,671,856.32

** This represents total profit, including final distribution.

NOTE.—Pencil notations enclosed in bracket.

EXHIBIT No. 2303

[Pencil notation: Mr. Anderson answered this letter; regular file]

HEAD OFFICE,
BANK OF MONTREAL,
Montreal, 28th April, 1916.

G. L. 22.

MY DEAR MR. LAMONT: I wonder, if you are at liberty, if you would be good enough to tell me, for our own information only, how the absorption of the Anglo-French loan is going on.

I am asking this as a possible investor. It is so very difficult to employ our funds that I feel tempted to put a few millions into the Anglo-French loan, as the yield is so highly attractive. I should not like, however, to do so unless the process of absorption is well under way, in which event the price should presently rise.

The seeming apathy of America towards this loan as reflected in the price seems to us as interested onlookers almost inexplicable. No matter how the tide of battle may ebb and flow England must and will repay to any holder who wants his money the principal sum when it falls due in the year of grace 1920.

By the way, will you also let me know what sort of a market there is in the bonds and if it is likely to become more free or less free.

With kind regards and thanks in anticipation, believe me, my dear Mr. Lamont,

Yours very truly,

F. W. TAYLOR.

T. W. LAMONT, Esq.,
Messrs. J. P. Morgan & Company,
23 Wall Street, New York.

EXHIBIT No. 2304

[File copy]

MAY 1ST, 1916.

SIR FREDERICK WILLIAMS TAYLOR,
Bank of Montreal,
Montreal, P. Q., Canada.

MY DEAR SIR FREDERICK: I returned this afternoon from my brief holiday in the South and find upon my desk your letter of April 28th, to which Mr. Anderson has very carefully and intelligently prepared the enclosed reply, which I have signed.

I could not myself have stated my own views more explicitly than Mr. Anderson, in anticipation, has done for me.

My guess upon the course of any particular security usually turns out wrong; but, if I were obliged to guess in regard to the Anglo-French bonds, I should be inclined to think that, even with the steady absorption which is going on, it would be some little time yet before we should see a material advance in the security. The reason, aside from possible war with Germany or anything of that kind, is that undoubtedly a good many American manufacturers still have on hand considerable holdings of this security, and, while, as Mr. Anderson points out, we know of no particular orders that are hanging over the market, the chances are that some of these manufacturers, as they require cash for their business, are likely to liquidate their holdings.

For the long pull, we have never had and haven't now the slightest misgiving as to the course of this security. With the handsome convertible clause that it possesses, we cannot see how it can possibly fail, in due time, to show a handsome advance.

Yours very truly,

——— ———.

TWL–Dt.

EXHIBIT NO. 2305

[File copy]

MAY 1ST, 1916.

SIR FREDERICK WILLIAMS TAYLOR,
Bank of Montreal,
Montreal, P. Q., Canada.

MY DEAR SIR FREDERICK: This answer to your letter of the 28th April has been delayed a few days as I have been taking a week's holiday.

Regarding the market for Anglo-French bonds, I can easily understand the attraction of the bonds at their present level to anyone who realizes, as of course we both do, that the loan is perfectly good under any circumstances. We have, of course, bonds of our own, which remain from the original syndicate, and we consider the bonds very cheap at their present level. There has been, so far as we can tell from the action of the market and the inquiries which come to us, a good bit of outside buying on the part of people who, like yourself, feel that the bonds are good and, at the going price, attractive on a money basis. One of the big insurance companies recently bought a substantial block of the bonds and other purchases which have happened to come to our notice have indicated that the same process is going on elsewhere. We are not so closely in touch with the buying by small, individual investors, but, from the reports that come to us, it seems to be clear that a steady absorption in small-denomination bonds is going on all the time. As against this, some of the larger interests—notably the manufacturing concerns who subscribed to the loan from business reasons when it was first arranged—have found it advisable to convert some of their bonds into cash, and the selling of one or two large amounts of this sort is probably the reason for the market's having failed to advance more from the recent low. So far as I know, there are no amounts of this sort overhanging the market at the present time, the only selling order of which we have happened to be advised being a small one with less than $200,000 bonds remaining to be sold. As a matter of curiosity, I have had tabulated the transactions on the stock exchange since the active trading began, a few days prior to the dissolution of the syndicate, and it aggregates approximately $89,132,000.

I think you will find the market an entirely free one, if you mean by that phrase the existance of any "peg." I believe the market is one which is responding to the natural laws of supply and demand and I don't see any reason why it should not continue to be governed by the same influence.

With kind regards, my dear Sir Frederick, believe me,

Yours very truly,

——— ———

AMA–Dt.

EXHIBIT NO. 2306

J. P. Morgan & Company—Summary of "British & French Gov't joint bond purchase loan a/c" (Anglo-French 5 yr. 5% bonds)

[B=British Gov't. Treas. a/c. F=French Rep. Com. Agency]

Debits					
Date	Purchases			Interest on debit balances	Sundry debits
	Face value	Market	Amount		
1915					
Dec. 16	10,000	94⅛	9,509.72		
17	143,000	94⅛ to 94¾	136,476.52		
20	1,523,000	94⅛ to 95	1,454,234.27		
21	816,000	94⅛ to 95	779,710.55		
22	448,000	94½ to 95	429,509.17		
23	255,000	94¼ to 94⅞	244,253.33		
24	466,000	94⅜ to 94¾	446,211.40		
27	884,000	94⅛ to 94¾	845,051.81		
28	791,000	94 to 94¾	733,339.74		
29	954,000	94 to 95	907,825.56		
30	839,000	93⅞ to 94	798,235.14		
31				4% 3,499.35	
31	562,000	94 to 94⅛	534,826.97		
Subtotal	7,691,000		7,339,184.18	3,490.35	

Credits						
Date	Sales			Cash deposited by British and French Governments against purchase price [1]		
				5% based upon purchases, less sales		
	Face value	Market	Amount	Purchases (face)	Sales (face)	Amount
1915						
Dec 20				153,000		B 3,825
				153,000		F 3,825
20				1,523,000		B 38,075
				1,523,000		F 38,075
21	513,000	94⅞ to 95¼	490,936.14			
21				816,000	513,000	B 7,575
				816,000	513,000	F 7,575
22	297,000	94⅞	284,170.35			
22				448,000	297,000	B 3,775
				448,000	297,000	F 3,775
23	279,000	94⅞	266,986.50			
23				255,000	279,000	B 600
23				255,000		F 600
24				466,000		B 11,650
				466,000		F 11,650
27				884,000		B 22,100
				884,000		F 22,100
28				791,000		B 19,775
				791,000		F 19,775
29	122,000	94⅛	115,933.29			
				954,000	122,000	B 20,800
				954,000	122,000	F 20,800
30				839,000		B 20,975
				839,000		F 20,975
31				562,000		B 14,050
				562,000		F 14,050
	1,211,000		1,158,026.28	7,691,000	1,211,000	324,000

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[1] Description of nature of transactions furnished by Mr. L. Keyes not indicated in ledger account.

J. P. Morgan & Company—Summary of "British & French Gov't joint bond purchase loan a/c" (Anglo-French 5 yr. 5% bonds)—Continued

[B=British Gov't. Treas. a/c. F=French Rep. Com. Agency]

Debits					
Date	Purchases			Interest on debit balances	Sundry debits
	Face value	Market	Amount		
1916					
Jan. 3	241,000	94 to 94½	230,049.02		
4	46,000	94⅛ to 94½	44,008.88		[3] 20.95
5	177,000	94⅝ to 94¾	169,884.17		
6	142,000	94 to 94¾	135,992.22		
7	235,000	94⅞ to 95	226,213.90		
8					[3] 6,250
10	575,000	96 to 95⅞	557,324.45		
12	300,000	95½ to 95⅝	290,624.99		
13	104,000	94¾ to 95½	100,595.42		
17	269,000	94½ to 95⅜	259,731.67		
19	15,000	95⅜	14,520.84		
20	47,000	95⅜	45,505.14		
21	200,000	94¼	193,416.67		
25	54,000	95¼	52,252.50		
26	10,000	95¼	9,677.78		
27	236,000	95¼	220,428.33		
31	504,000	95	486,850.00		
Feb. 1	382,000	94¾ to 95	368,547.64		
2	1,294,000	94⅞ to 95	1,250,097.91		
3	4,000	94⅞ to 95	3,861.11		
4	29,000	94⅞	27,989.03		
7	300,000	94¾ to 94⅞	289,416.66		
8	200,000	94⅝	192,638.99		
9	489,000	94½	470,458.75		
10	28,000	94⅜ to 94⅝	26,964.72		
11	50,000	94⅞	48,305.55		
14	111,000	94⅝	107,007.09		
15	135,000	94⅝	130,162.50		
24	100,000	94⅜	96,291.67		

Credits						
Date	Sales			Cash deposited by British and French Governments against purchase price		
				5% based upon purchases, less sales		
	Face value	Market	Amount	Purchases (face)	Sales (face)	Amount
1916						
Jan. 3	141,000	94⅛ to 94½	134,201.61	241,000	141,000	B 2,500 F 2,500
4	191,000	94⅝	182,589.50			
4				46,000 46,000	191,000 191,000	*B 3,625* *F 3,625*
5	177,000	94¾ to 94⅞	169,550.05			
6	334,000	94¾ to 94⅞	319,929.65	142,000 142,000	334,000 334,000	*B 4,800* *F 4,800*
7	210,000 5,000,000 1,000,000	94⅞ to 95 95 no comm 95¼ no comm	201,493.47 4,806,944.44 963,888.89	235,000 235,000	210,000 210,000 6,000,000 *6,000,000*	B 625 F 625 *B 150,000* *F 150,000*
10	367,000	95⅛ to 95½	353,381.45	575,000 575,000	567,000 567,000	B 5,200 F 5,200
11	64,000	95¾	61,964.35		64,000 64,000	*B 1,600* F *1,600*
12	45,000	95½	43,462.30	300,000	45,000	B 6,375 F 6,375
13	89,000	95⅝	86,082.28	104,000	89,000	B 375 F 375
17	47,000	95½	45,426.30	269,000	47,000	B 5,550 F 5,550
18	96,000	95½	92,799.30		96,000	*B* 2,400
19	48,000	95½	46,408.37	15,000	48,000	*F 2,400* *B 825*
20	87,000	95½	84,123.77	47,000	87,000	*F 525* *B 1,000*
21				200,000		*F 1,000* B 5,000

25	500,000	94⅛ to 94¼	480,590.28		
28	8,000	94	7,677.78		
29	890,000	93⅝ to 94	852,708.89		

	24	25,000	95⅜	24,156.15		25,000	F 5,000 B 625 F 626
	25	22,000	95⅜	21,260.05	54,000	22,000	B 800 F 800
	26	25,000	95⅜	24,163.10	10,000	25,000	B 375 F 375
	27				236,000		B 5,900 F 5,900
	31	32,000	95⅛	30,870.61	504,000	32,000	B 11,800 F 11,800
Feb.	1				382,000		B 9,550 F 9,550
	2	115,000	95	110,814.98	1,294,000	115,000	B 29,475 F 29,475
	3	165,000	95	159,018.35	4,000	165,000	B 4,025 F 4,025
	4	29,000	95	27,952.38			
	7	151,000	94¾	145,232.04	300,000	151,000	B 3,725 F 3,725
	8				200,000		B 5,000 F 5,000
	9				489,000		B 12,225 F 12,225
	10				28,000		B 700 F 700
	11	76,000	94⅞	73,234.05	50,000	76,000	B 650 F 650
	14	100,000	94⅞	96,402.68	111,000 111,000	100,000 100,000	B 275 F 275
	16	235,000	94¾	226,234.61	135,000 135,000	235,000 235,000	B 2,500 F 2,600
	16	27,000	94¾	26,002.20		27,000 27,000	B 675 F 675
	18	50,000	94⅝	48,103.67		50,000 50,000	B 1,250 F 1,250
	21	216,000	95⅝ to 94¾	207,919.80		216,000	B 5,400 F 5,400
	23	118,000	94¾	113,755.18		118,000	B 2,950 F 2,950
	24				100,000		B 2,500 F 2,500
	25				500,000		B 12,500 F 12,500
	28				8,000		B 200 F 200
	29				890,000		B 22,250 F 22,250

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[3] Telegram: Morgan, Harjes.

[3] ⅛% on 5,000,000.

J. P. *Morgan & Company—Summary of "British & French Gov't joint bond purchase loan a/c" (Anglo-French 5 yr. 5% bonds)*—Continued

[B=British Gov't. Treas. a/c. F=French Rep. Com. Agency]

Debits					
Date	Purchases			Interest on debit balances	Sundry debits
	Face value	Market	Amount		
1916					
Mar. 1	20,000	94	19,197.22		
2	250,000	93⅝	239,131.95		
7	100,000	94⅛ to 94¼	96,284.72		
8	80,000	94⅛ to 94⅜	77,101.39		
9	10,000	94½	9,662.50		
10	10,000	94⅜	9,648.61		
13	250,000	94	240,451.39		
16	500,000	94–94⅛	481,423.60		
20	98,000	94¼–94⅜	94,662.22		
23	210,000	94⅞	204,108.34		
27	185,000	95⅛–95¼	180,500.00		
30	250,000	95¼	244,166.67		
				4% 32,193.05	

Credits						
Date	Sales			Cash deposited by British and French Governments against purchase price		
				5% based upon purchases, less sales		
	Face value	Market	Amount	Purchases (face)	Sales (face)	Amount
1916						
Mar. 1				20,000		B 500
						F 500
2				250,000		B 6,250
						F 6,250
7				100,000		B 2,500
						F 2,500
8	90,000	94⅜	86,612.40	80,000	90,000	B 250
						F 250
9				10,000		B 250
						F 250
10				10,000		B 250
						F 250
13				250,000		B 6,250
						F 6,250
14	500,000	94¼	480,972.12		500,000	B 12,500
						F 12,500
16				500,000		B 12,500
						F 12,500
20				98,000		B 2,450
						F 2,450
22	300,000	95–95⅛	291,228.97		300,000	B 7,500
						F 7,500
23	757,000	95–95⅛	735,438.09	210,000	757,000	B 13,675
						F 13,675
24	250,000	95	242,707.04		250,000	B 6,250
					250,000	F 6,250
27				185,000		B 4,625
				185,000		F 4,625

Subtotal	17,329,000		16,633,317.24	35,692.40	6,270.95
Apr. 5	250,000	95⅝–95¾	245,402.77		
6	75,000	95⅝	73,593.75		
10	144,000	95⅝	141,380.00		
12	110,000	95⅜	107,738.89		
12	190,000	95⅛–95¼	185,870.84		
13	425,000	95–95⅛	415,100.69		
14	14,000	95	13,665.55		
15	Coupons on $2,647,000 Anglo-French bonds on hand				*66,175.00*
17	171,000	95	162,711.25		
20	4,000	95	3,807.78		
26	102,000	94⅞	97,055.84		
	18,814,000				
June 5	207,000	95½–95⅝	199,515.00		

28	705,000	95–95⅛	685,084.02		705,000 705,000	*B*	*17,625*
30	100,000	95½	97,666.57	250,000 250,000	100,000 100,000	B F	3,750 3,750
31	150,000	95½	146,520.33		150,000 150,000	*B* *F*	*3,750* *3,750*
	13,345,000		12,851,668.90	17,123,000	13,139,000		199,200
Apr. 3	745,000	95½–95¾	729,049.80		745,000 745,000	*B* *F*	*18,625* *18,625*
5	450,000	95¾–95⅞	441,186.59		450,000 450,000	*B* *F*	*11,250* *11,250*
5				250,000 250,000		B F	6,250 6,250
6	1,000,000	95¾	979,999.90	75,000	1,000,000	*B* *F*	*23,125* *23,125*
7	100,000	95⅞	98,250.00		100,000	*B* F	*2,500* 2,500
10	250,000	95¾	245,138.19	144,000	250,000	B *F*	2,475 *2,475*
11				110,000 110,000		B F	2,750 2,750
12				190,000 190,000		B F	4,750 4,750
13				425,000 425,000		B F	10,625 10,625
14				14,000 14,000		B F	350 350
17				171,000		B F	4,275 4,275
20				4,000		B F	100 100
26				102,000		B F	2,550 2,550
May 24	3,000	95¾	2,884.90		3,000	*B* *F*	*75* *75*
	15,893,000						
June 1	1,000,000	95⅞	963,887.39		1,000,000 1,000,000	*B* *F*	*25,000* *25,000*
2	625,000	95⅞–96	602,521.72		625,000	*B* *F*	*15,625* *15,625*
5	103,000	95⅞	99,337.28	207,000	103,000	B F	2,600 2,600
6	71,000	95⅞	68,484.93		71,000	*B* *F*	*1,775* *1,775*
7	63,000	95⅞	60,776.90		63,000	*B* *F*	*1,575* *1,57*
7	Error in commission April 10					*B* *F*	*175* *175*

J. P. Morgan & Company—Summary of "British & French Gov't joint bond purchase loan a/c" (Anglo-French 5 yr. 5% bonds)—Continued

[B=British Gov't. Treas. a/c. F=French Rep. Com. Agency]

Debits					
Date	Purchases			Interest on debit balances	Sundry debits
	Face value	Market	Amount		
1916 June 8	⅛% brokerage on 100,000 bonds sold April 7				125.00
9	100,000	95¾	96,625.00		
12	534,000	95⅝ to 95¾	515,886.26		
16	475,000	95¼–95½	457,805.55		
19	138,000	95⅜–95½	133,079.16		
20	222,000	95¼–95⅜	213,932.91		
21	116,000	95¼	111,698.34		
22	14,000	95¼	13,482.78		
23	321,000	95⅛–95¼	309,175.84		
26	45,000	95⅛	43,306.25		
				4% 19,595.06	
July 12	100,000	95⅜	96,708.34		
14	50,000	95¼	48,305.55		
17	182,000	95¼	175,908.05		
31	105,000	95¼	101,689.59		
Aug. 1	22,000	95¼	21,306.39		
2	1,000	95¼	968.61		
3	140,000	95¼	135,625.00		
14	12,000	95⅛	11,628.33		
15	513,000	95⅛–95¼	497,213.75		
16	1,694,000	95¼–95⅜	1,644,246.14		
17	961,000	95¼–95⅜	932,962.36		
18	368,000	95¼	357,266.07		
21	22,000	95¼	21,367.50		
23	1,264,000	95⅜=95⅝	1,231,106.11		
24	1,032,000	95½	1,005,335.56		
25	103,000	95⅜=95½	100,310.27		
29	13,000	95⅜	12,656.94		
31	500,000	95⅜	486,944.45		
Sept. 1	92,000	95¼	89,482.78		
5	1,000,000	95⅛–¼	972,569.44		
6	250,000	95⅛	243,020.83		
14					

Credits						
Date	Sales			Cash deposited by British and French Governments against purchase price		
				5% based upon purchases, less sales		
	Face value	Market	Amount	Purchases (face)	Sales (face)	Amount
1916 June 8	4,000	95⅞	3,859.35		4,000	*B 100* *F 100*
9	500,000	95¾	481,873.70	100,000	500,000	*B 10,000* *F 10,000*
12	401,000	95¾	386,630.42	534,000	401,000	B 3,325 F 3,325
13	750,000	95¾	723,228.17		750,000	*B 18,750* *F 18,750*
14	182,000	95¾	175,528.69		182,000	*B 4,550* *F 4,550*
15	63,000	95¾	60,768.65		63,000	*B 1,575* *F 1,575*
16				475,000		B 11,875 F 11,875
19				138,000		B 3,450 F 3,450
30				222,000		B 5,550 F 5,550
21				116,000		B 2,900
22	33,000	95⅝	31,739.19	14,000	33,000	F 2,900 *B 475*
23	24,000	95¼–95⅜	23,081.17	321,000	24,000	*F 475* B 7,425
26	104,000	95⅝	100,085.05	45,000	104,000	B 7,425 *B 1,475*
27	500,000	95¼	480,624.90		500,000	*F 1,475* *B 12,500*
28	350,000	95½	337,360.91		350,000	*F 12,500* *B 8,750*
30	10,000	95½	9,641.57		10,000	*F 8,750* *B 250*
July 3	10,000	95½	9,645.73		10,000	*F 250* *B 250*

Oct.	16	Coupons from 6,663,000 bonds				*160,575*
	17					
	25	630,000	94⅞–95	600,000.01		
	26	40,000	94⅞	38,061.11		
	27	540,000	94⅝–⅞	513,062.50		
	30	20,000	94⅝	18,991.67		

	5	300,000	95½–95⅝	289,720.33		300,000	*F* *B*	*250* *7,500*
	12				100,000		*F* B	*7,500* 2,500
	14				50,000		F B	2,500 1,250
	17				182,000		F B	1,250 4,550
	31				105,000		F B	4,550 2,625
Aug.	1				22,000		F B	2,625 550
	2				1,000		F B	550 25
	3				140,000		F B	25 3,500
	14				12,000		F B	3,500 300
	15				513,000		F B	300 12,825
	16				1,694,000		F B	12,825 42,350
	17				961,000		F B	42,350 24,025
	18				368,000		F B F	24,025 9,200 9,200
	21	52,000	95⅝	50,439.80				
	21	Commission on bond held in account transferred to British Treas. a/c.						*103,700*
	21	Commission on bond held in account transferred to French Comm. Agency.						*103,700*
	22	666,000	95⅜	646,112.30				
	23	55,000	95½	53,433.83				
	24	50,000	95½	48,583.23				
	25	112,000	95½	108,841.92				
	28	39,000	95½	37,916.07				
	29	1,000	95½	972.26				
	30	100,000	95½	97,249.90				
	31	1,000	95½	972.54				
Sept.	14	50,000	95⅜	48,659.72				
	25	213,000	95⅜	207,615.84				
	26	276,000	95⅜	269,061.67				
	28	21,000	95⅜	20,477.92				
	29	46,000	95⅜	44,862.78				
Oct.	2	31,000	95⅜–½	30,259.03				
	3	23,000	95½	22,472.92				
	4	25,000	95½	24,430.55				
	17	163,000	95⅜	155,302.78				
	18	308,000	95⅜–½	293,523.33				
	25	100,000	95⅛	95,138.89				
	26	2,000	95⅛	1,903.06				

J. P. Morgan & Company—Summary of "British & French Gov't joint bond purchase loan a/c" (Anglo-French 5 yr. 5% bonds)—Continued

[B=British Gov't. Treas. a/c. F=French Rep. Com. Agency]

Debits						Credits						
Date	Purchases			Interest on debit balances	Sundry debits	Date	Sales			Cash deposited by British and French Governments against purchase price		
										5% based upon purchases, less sales		
	Face value	Market	Amount				Face value	Market	Amount	Purchases (face)	Sales (face)	Amount
1916 Nov. 1	4,000	94⅞	3,806.66			1916 Nov. 1	23,000	94⅞	21,843.61			
3	From June 30 to Oct. 30			4% 52,797.96		3	1,000,000	94¹³⁄₁₆	949,375.00			
6	182,000	94⅞–95	173,493.35			6	1,225,000	94⅞ to 95	1,165,760.43			
8	50,000	94⅞	47,647.22			9	44,000	95	41,891.67			
9	1,000	94⅞	953.19			10	20,000	95	19,044.45			
10	1,988,000	94¾–⅞	1,893,029.03			13	671,000	95	639,220.70			
13	112,000	94⅞	106,828.61			16	8,000	95	7,624.44			
14	37,000	94⅞	35,298.34			Dec. 6	250,000	93⅞	236,145.84			
15	65,000	94⅞	62,020.84			13	350,000	93⅞	330,944.44			
16	19,000	94⅞	18,131.11									
17	25,000	94⅞	23,861.11									
20	250,000	94⅞	238,715.28									
22	94,000	94⅞	89,783.05									
23	250,000	94⅞	238,819.45									
24	740,000	94⅝–¾	705,911.48									
27	637,000	94½–⅞	607,538.34									
28	270,000	94½	257,100.00									
29	179,000	94¼–⅝	170,198.47									
Dec. 1	11,000	94¼–½	10,460.28									
1	164,000	94¼	156,559.17									
4	123,000	93⅞–94	116,538.32									
5	124,000	93⅞	117,421.11									
6	300,000	93⅝–⅞	283,750.00									
7	157,000	93½	148,125.14									
19	*Adj. Dec. 1st purchase*		*946.39*									
31	From Oct. 31 to Nov. 28			4% 21,678.12								
	Nov. 28 to Dec. 31			6% 47,411.82								

1917						
Jan. 5	30,000	93	28,270.83			
8	Adj. of interest from Oct. 31 to Nov. 28				*743.14*	
Mar. 12	787,000	92-92¾	744,544.17			
13	150,000	92½-⅝	142,145.84			
14	35,000	92½	33,143.05			
15	80,000	92½	75,766.66			
20	100,000	92½	94,777.78			
26	14,000	92⅝	13,298.05			
Apr. 2	20,000	92⅝	19,013.89			
3	Jan. 1st to Jan. 9			6%	13,112.43	
	Jan. 9 to Mar. 1st			5%	50,045.80	
	Mar. 1st to Apr. 1			6%	37,058.06	
16	Coupons from 4,054,000 bonds					*126,350.00*
June 30	Apr. 1st to June 30th, 6%			6%	73,083.05	
	Dec. 31 to Jan. 1st, 1917			6%	1,509.95	
Oct. 1	Int. to Sept. 30th			6%	67,794.94	
15	Coupons from 4,454,000 bonds					*111,350.00*
Dec. 31	Int. on debit balance			6%	65,555.73	
1918						
Jan. 2						
Feb. 23				6%	19,485.93	
Total	37,638,000		36,186,893.07		504,078.13	*464,054.06*

1917						
Jan. 4	110,000	93-93⅛	103,436.95			
8	1,266,000	93-¼	1,191,056.67			
10	150,000	93	141,083.34			
18	77,000	93⅛	72,604.59			
31	700,000	93¼	662,180.56			
Mar. 12	274,000	92½-⅝	258,994.17			
14	182,000	92⅝-¾	172,118.89			
15	126,000	92⅝	119,175.00			
16	24,000	92⅝	22,703.33			
19	5,000	92¾	4,738.20			
20	4,000	92⅝	3,786.11			
21	48,000	92⅝-¾	45,442.50			
22	23,000	92¾	21,805.27			
23	25,000	92¾	23,704.86			
26	118,000	92¾	111,936.11			
27	7,000	92⅞	6,650.00			
30	188,000	92⅞	178,678.34			
Apr. 3	2,050,000	92⅞-93¼	1,956,708.34			
4	296,000	94½-⅝	286,425.28			
July 19	600,000	94	571,833.33			
Dec. 28	62,000	88¼-88⅜	55,271.10			
31	36,000	88¼	32,105.00			
1918						
Jan. 2	207,000	88¼-⅜	184,815.00			
3	200,000	88¼-½	178,679.17			
7	56,000	88½	50,127.78			
8	50,000	88½	44,736.89			
9	200,000	88½-89	179,583.33			
10	111,000	89-89¼	99,989.16			
11	206,000	89¼-89½	186,179.31			
14	125,000	89⅛	112,795.14			
18	288,000	89-89⅛	259,680.01			
21	115,000	89-89⅛	103,758.33			
22	105,500	89-89⅛	95,222.58			
23	122,000	89-89½	110,094.30			
25	31,000	89	27,981.89		Cash from British Govt. & French Govt.	
29	74,000	89	66,936.38			
30	347,000	89-89⅛	313,462.98			
Feb. 1	1,450,000	89¼-89⅞	1,318,507.21			
5	296,000	90-90 1/32	270,474.09			
21	372,500	89¾	340,371.87			
25						157,005.84
25					157,005.85	
	37,638,000		35,912,905.46		157,005.85	157,005.84

EXHIBIT No. 2307

[Mr. Sweezy]

NOVEMBER 4 1915.

N. W. HARRIS & CO., INC.,
Boston, Mass.

DEAR SIRS: If you have not already received a letter from the Guaranty Trust Company giving the details of the proposed advertising campaign on the Anglo-French bonds you will probably receive such a letter in a day or two. We are writing you this letter so that you will have fuller information regarding this advertising campaign than is given in this letter.

At a conference about a week ago it was decided to discontinue the large syndicate advertisement and in place of this large advertisement to run a number of single, double, and triple-column advertisements. These advertisements are to appear under the name of different houses; and while they are to be paid for by the syndicate, the idea is to make them appear to be the individual advertisement of the different houses. It is proposed to give every member of the underwriting syndicate the opportunity of running a number of these advertisements. A committee composed of a representative of the Guaranty Trust Company; White, Weld & Co.; Lee, Higginson & Co.; William A. Read & Co.; and Harris, Forbes & Co., has been working on this proposed advertising campaign for the last ten days. It is proposed to spend about $80,000 in advertising in the New York territory, which sum it is estimated will be sufficient to run at least three advertisements of each of the houses in about fifteen different newspapers.

Messrs. J. P. Morgan & Co. have written to the seven central cities, including Boston, suggesting that they carry out a similar advertising campaign in their territory, the expense to be met out of the funds of the syndicate. Each house is to be allowed to prepare its own advertisements and place them through their own advertising agents. We have prepared in New York and have had set up about fifty different advertisements, which advertisements will be available for the other central cities if desired.

Chicago and St. Louis have already indicated their willingness to cooperate in this advertising campaign. At the request of the Central Trust Company of Illinois we are sending a member of this committee out to Chicago to help them get their advertising campaign started.

Yours very truly,

——— ———.

HCN-GB.

EXHIBIT No. 2307-A

DECEMBER 17, 1915.

Messrs. J. P. MORGAN & COMPANY,

GENTLEMEN: We desire to submit the following report covering the special advertising of the Anglo-French bonds. The campaign began on November 8th and was concluded on December 10th. It will be noted from the comparative figures that the amount actually expended was very much less than the amount originally appropriated. This was due to three facts:

1. The total number of houses participating in the advertising was considerably less than had been estimated;
2. Most houses decided to use none of the 3-column copy that had been prepared;
3. During the last 10 days the campaign, instead of running at full strength, was greatly reduced.

The principal facts in regard to this campaign are as follows:

1. Total number of New York houses participating	58
2. Total number of lines used in New York newspapers	37, 454
3. Total number of cities represented in campaign	41
4. Total number of New York houses using out-of-town papers	11
5. Total expense of New York committee	$21, 402. 82
6. Total expenditure of the 6 "central committees" (Richmond decided not to advertise)	$41, 277. 95

	Appropriated	Expended		Appropriated	Expended
New York	$80,000	$21,402.82	Baltimore	$3,000	$1,647.23
Chicago	15,400	8,809.19	Pittsburgh	5,500	567.74
Philadelphia	25,000	1,733.05			
Boston	23,000	7,117.92		151,900	41,277.95

Yours very truly,

SPECIAL ADVERTISING COMMITTEE,
ANGLO-FRENCH LOAN SYNDICATE.

FWE:F.

EXHIBIT No. 2308

NEW YORK, *December 21, 1915.*

Messrs. J. P. MORGAN & Co.,
Wall & Broad Streets, New York City.
(Attention of Mr. Lamont.)

GENTLEMEN: The special committee on advertising of Anglo-French bonds held a meeting today and discussed very thoroughly the subject of future advertising. As a result of the meeting we desire to submit the following recommendations:

1. That for the present there be no advertising whatsoever.
2. That the question of time for beginning a campaign for advertising be considered about January 5th, at which time the market conditions then prevailing can serve as a basis for a more intelligent determination of the date on which advertising should begin.
3. That subject to modifications at that time, campaign consist of advertisements of standard magazine page size to run regularly for ten weeks in all the leading weekly periodicals.
4. That the advertising consist of a series, say 10 advertisements, written by the very best editorial talent that can be secured and that the advertisements shall be exclusively educational in their character, and with the exception of perhaps the last two or three advertisements, make no reference to selling.
5. That each advertisement bear the signature of J. P. Morgan & Co. in such capacity as you may determine. In our judgment an advertisement unsigned would not only be useless but positively harmful.

In this connection we feel that a series of advertisements over the names of individual houses participating in the recent syndicate would result in so many complications as to be impracticable.

The committee would be glad to hold itself in readiness to discuss this matter fully with you at any time convenient to you.

Yours very truly,

———— ————.

EXHIBIT No. 2309

JANUARY 6, 1916.

Messrs. J. P. MORGAN & COMPANY,
New York City.
(Attention of Mr. Lamont.)

GENTLEMEN: In accordance with your recent suggestion, the special advertising committee of the Anglo-French Loan Syndicate has discussed very thoroughly the subject of future advertising of this issue.

The committee feels that any advertising which may be done, in order to be effective, must carry some signature; but that there are insurmountable difficulties to any plan of advertising over the signatures of syndicate participants.

The committee believes that possibly a limited amount of advertising of a broad educational character and bearing the signature of J. P. Morgan & Company, in such capacity as you may determine, might be of value.

The committee holds itself in readiness to discuss this matter fully at your convenience, if you so desire.

Yours very truly,

CHAIRMAN, SPECIAL ADVERTISING COMMITTEE
ANGLO-FRENCH LOAN SYNDICATE.

FWE:F.

EXHIBIT No. 2310

[File copy]

OCTOBER 8TH, 1915.

[Pencil notation:) Southern Ry.]

FAIRFAX HARRISON, ESQ.,
1300 Pennsylvania Avenue, Washington, D. C.

DEAR MR. HARRISON: Attached hereto is a statement which a number of eminent gentlemen in this country have expressed their desire to sign and which, if you approve, we should be very glad to have your name added to. The Anglo-French loan is of such great importance to the country and the opinions of its leading citizens are at this juncture of such moment that it has been deemed wise to gather up various opinions, put them in the form of one concise statement and then have that statement signed by various leading men.

Those who have already expressed a desire to sign are James J. Hill, Howard Elliott, Henry L. Higginson, Theodore N. Vail, Robert T. Lincoln, Seth Law, and others. The matter is, of course, very confidential in its present stage, but we shall be very happy if you can wire us tomorrow morning as to how you feel about being added to the list of signatories.

Mr. Morgan started tonight for his camp in the Adirondacks for a little rest or he would have written this letter himself. It carries with it the best regards of himself and Mr. Steele and their earnest hope that your views may coincide with these other gentlemen and that you may be willing to sign this statement, which probably would be given out sometime early next week.

Very truly yours,

T. W. L.

TWL-Dt.

EXHIBIT No. 2311

NEW YORK, *October 28, 1915.*

MR. JOE MCKINNON,
1967 Lowell Avenue, Butte, Mont.

SIR: Following a discussion with Mr. Thomas R. Gibbs, of Boston, Secretary of the Scottish Clans, and Mr. Walter Scott, of Butler Brothers of New York, and at their suggestion, we are sending you by express, one hundred envelopes, each containing a circular letter, prospectus, and statement referring to the Anglo-French External Loan, with the request that they be distributed among the members of your organization. Both of the gentlemen referred to consider this plan of distribution the one which will be most agreeable to you and most satisfactory in all respects.

We shall appreciate it if you will forward a statement of expense incurred in addressing and distributing these letters.

Very truly yours,

J. P. MORGAN & CO.,
Agents for Syndicate Managers.

EXHIBIT No. 2312

[File copy]

NOVEMBER 5, 1915.

MR. GEORGE H. HILL,
813 Packer Street, McKeesport, Pa.

SIR: Following a discussion with Mr. Chas. C. Meurisse, supreme president; Mr. Wm. J. Trembath, supreme secretary; Mr. J. Henry Perkins, supreme messenger; Mr. Walter Willis, Mr. Wm. F. Barlow, and Mr. Francis S. Green, past supreme presidents; all of the Order, Sons of St. George, and with Mr. A. A. Michell, past grand president, New York State, and Mr. Fred W. Hayward, secretary Nelson Lodge No. 64, of the same order, and at their suggestion, we are sending you by express three hundred and seventeen envelopes each containing a circular letter, prospectus and statement referring to the Anglo-French external loan, with the request that they be distributed among the members of your organization. All of the gentlemen referred to consider this plan of distribution the one which will be most agreeable to you and most satisfactory in all respects.

We shall appreciate it if you will forward a statement of expense incurred, in addressing and distributing these letters.

Very truly yours,

——— ———,
Agents for Syndicate Managers.

EXHIBIT NO. 2313

[Confidential]

BONBRIGHT & CO.,
Paris, 20th July 1915.

[Pencil note: Ans'd 8/9/15.]

WILLIAM P. BONBRIGHT, Esq.
N. Y.

MY DEAR MR. BONBRIGHT: I wrote you last on July 19th. Yesterday I dined with a friend of mine who is well posted on the financial situation here and particularly on the Franco-American situation. He has been the last three years director of the Banque Privee and has lately joined Messrs. Morgan, Harjes & Co.

I gathered from him that the Banque Suisse & Francaise, whose directors he knows very well, has formed a syndicate of influential Paris bankers who nave jointly drawn on bankers of your country (I believe particularly upon Brown Bros.). Those drawings have been rediscounted by the American bankers at your National Bank; and thus a credit has been provided for the French Bank, which I am told amounts to about 20 million dollars, more being expected to be added as time goes on.

I suppose these drawings have influenced the exchange situation and this is probably the operation which I mentioned to you in my letter of July the 8th.

Speaking in a general way of the Franco-American financial situation my friend was of the opinion that you will in America come by and by to the idea of financing European requirements with much greater facility than now.

He mentioned a possible operation of England and France jointly, operation which has not taken place yet because the English find money easily on much cheaper terms and conditions in their own country.

I understand that the Banque Suisse et Francaise had a representative of their own, Mr. Rossier, in America for the last three or four months.

I am telling you all this to show you know everybody is following with the keenest interest this financial situation and how the largest banks in France are trying to decide their American connections to finance European requirements. It is certain that American financiers have not yet taken a decided position in this war, which is no doubt particularly due, besides commercial reasons, to the attitude of your Government, and I therefore understand why you have not been able up to now to make use some proposition which would carry the approval of financial interests here.

What your politics will do, it is difficult to guess; but everybody here believes that you will slowly come if not to war, to take more and more morally and practically the side of the Allies—then your capital will flow much more easily to Europe. But I am afraid that, by that time, there will be so much competition in the market that your own case will not stand clear as it stands now, and we shall not anyhow draw out of it the advantages which we can secure at the present time.

I have often regretted that you did not see your way to come over to Paris during all these months because you would have been able to judge the present situation, take advantage of it, and also discuss how this house out to be organized to take advantage in the future of certain requirements in French industrial, financial, and commercial services.

I do not want to look discouraged and I believe there will be ample work for all, but at the same time I cannot help being afraid sometimes that we shall miss this opportunity of getting widely known and establishing ourselves here and in England in the manner you had in mind when you opened the London and Paris offices.

The Societes de Credit here have such bad name that there are good chances, particularly for houses with foreign connections; but we must go impressively into the field. I know that your field has been America up to now, and naturally a very satisfactory field, but I am afraid that the competition of European borrowings will be so heavy during the next years that you will not be able to sell any American securities here and therefore turn to other fields, which are:

First.—Participation in European financings.

Second.—Participation in the reconstruction period, principally through the medium of F. P. E. C. organized in such a way as to meet quickly the requirements here.

I had gone so far in this letter when I received your most interesting letter of July 8th and the letter signed by Mr. Rodgers of July 9th commenting upon the financial arrangement related above. Here, we are under the impression that this business was not done with Morgan, but particularly with Brown Bros., the French bankers who drew being guaranteed by the Bank of France.

To answer Mr. Rodgers' remark I wish to say that this business is a private business done between banks, and that the French State has nothing whatever to do with it. In such arrangements it is possible to get the guarantee of the Bank of France, but when you are dealing direct with the French State, as we have been trying to do, the bank of France cannot be used.

I have read your letter of July 8th with a great deal of interest and I can but approve all of the suggestions you make to reach the small investors, I do not know how cheap metal-pins and buttons with the Arms of France will be received in America, but an acknowledgment signed by the French Ambassador might not be a bad idea at all as it is very similar to the one made by the Bank of France of which we have sent you a proof.

I have written you why that proposal did not and could not succeed in France; it was much too small and the repayment clause in France during the time of the loan was particularly disliked, wrongly perhaps, it is true.

I had again this morning a long interview with Mr. Pechadre. It is a pity to know what amount of business we are missing through not being able to make a financial proposition to France. The Chemins de Fer de l'Etat, for example, have made important purchases in America and are going to make some more, and I suppose there are many similar cases.

I gave Mr. Pechadre an "apercu" of the situation in New York and I think I will decide him to go and see Mr. Ribot to ask him to send him, Pechadre, to the U. S., possibly with me, to discuss a loan to France with you. You will realize that, if Mr. Pechadre goes over in such capacity, it will not be to find 20 or 40 million dollars for France; it must mean big business, an actual national loan placed in the U. S. in small denominations, just the very ideas you have.

I am still expecting an answer to our cable no. 59 and naturally I will only try to decide both Mr. Pechadre and Mr. Ribot to send such a mission to the U. S. if you can give me the moral assurance that it will not remain without results.

We have been talking on the subject of collateral and have been wondering if you would accept as collateral for an issue any such securities as: Bons du Credit Foncier, or Obligations of the State Railways of France, or similar.

We think that the money loaned to France, whether it is coupled or not with a purchase privilege, should not cost more than 8 to 8.50 percent. In fact I know that Mr. Ribot if you could at least give us 50 million dollars would give you the sale of French notes in the U. S., one year, special issue, in small denominations, at somewhere round 95, 94.50, 94, with a placing commission for you and the syndicate.

Now, I am ready to work on that idea of a mission to the U. S. with the fullest powers if I get some encouragement from you. That encouragement means that, when Mr. Pechadre arrives to N. Y. he is to meet all members of your syndicate and that you and your syndicate are willing to undertake the placing of the national loan to France at acceptable terms and in a large amount. Mr. Pechadre has promised me, and I am sure of his promise, that he will go to the U. S. after having gotten all power needed here, if I can give him the assurance that he will not have to come back with empty hands. The decision remains in your hands.

This national loan will certainly be placed once in America; I think we have the best of chance that the business can be done through us if we act now. If we wait too long it will again go to others.

It would have been a great moral help for me to know something about your syndicate.

You write that the terms you have offered for the Italian and French business are only made practicable by the willingness of F. P. E. C. to give one-half of their well-earned fees to the bankers. I was under the impression that we controlled that F. P. E. C. and can only hope that they have not too much saying in this business. They should be perfectly satisfied with a purchase commission of 1 percent or even a smaller share. I am sure that you would find it cheaper to go direct yourselves to the manufacturers in the U. S. and interest the said manufacturers in your loan.

We are all disappointed that you cannot use the proposed shipment of gold and we shall try, if this is acceptable, to find some actual collateral. What an awful blow that Morgan-Rothschild business is, but do you not think that its effect can now be considered as discounted once for all.

Until I hear again from you I shall not approach private banks to perhaps try smaller business as that done with Brown Bros., as I still consider it a great deal better to do business with the French State direct. I shall not see Mr. Ribot until I have something new to tell him.

You may rest assured that I will never say anything reflecting upon the Morgan house, as I feel anyhow, as you do, that they are and have always been a great honest power in your country.

Thanking you sincerely for your wishes for my brother whom, I am sorry to say does not show any sign of recovering, I am, dear Mr. Bonbright,

Yours very sincerely,

(Signed) FISCHER.

[Pen written: I am leaving tonight for Berne to see my mother and will investigate Swiss national loan conditions.]
HM/HF.

EXHIBIT No. 2314

[Extract from Henry P. Davison, The Record of a Useful Life, by T. W. Lamont, 1933 edition]

Page 197: Thoroughgoing measures had to be employed to make effective an educational campaign throughout the country. But the final result was deemed by the whole American community a great triumph for the Allied cause.

("EXHIBIT No. 2315" appears in text on p. 8181)

("EXHIBIT No. 2316" appears in text on p. 8182)

EXHIBIT No. 2317

362A/146

J. P. MORGAN & CO.,
EXPORT DEPT.,
New York, March 28, 1916.

[Telegram from Morgan, London, 9:32 a. m.]

14974. 15971. For G. W. Bacon. Appreciate your prompt reply which was discussed with authorities yesterday morning. Price of $30,500 each for 100 howitzers which Midvale Steel Company now ask is considered exorbitant, particularly as their former price of $27,500, as Corey will recall, was regarded by Sir H. F. Donaldson as excessive.

There is possibility Midvale Steel Company might secure order for 100 British 8-inch howitzers, carriages, and limbers, British inspection, if they are prepared submit reasonable offer, and I suggest you advise them put forward their best proposal if they are really serious.

Confidential, for your information only, manufacturing facilities have increased enormously here and under system of controlled factories prices have been and are being greatly reduced.

If American manufacturers desire secure further orders, it will be necessary for them to work on much closer margin than heretofore.

At conference yesterday morning, price of $24,000 was suggested as fair, and $26,000 as liberal. It is my guess that Midvale Steel Company could secure order for 100 howitzers at latter price possibly with a bonus of, say, $500 or 750 per howitzer on all deliveries within 10 months from date of order. Please see Corey and/or Dinkey again, discuss situation, and cable results.—E. R. S.

MORGAN.

Exhibit No. 2318

146/362a

J. P. Morgan & Company,
Export Dept.,
New York, March 29, 1916.

[Telegram to Morgan, London, 12:30 p. m.]

17110. 14974. 15971. For E. R. Stettinius. 8-inch howitzers: Have conferred fully with officials Midvale Steel Co., who state it is impossible for them accept suggestion of $26,000 per gun, including bonus of $750 for deliveries within ten months from date of order. The reasons for declining this suggestion are as follows:

(1) The actual shop cost of gun, including carriage and limber and amortization of plant, they estimate under most favorable manufacturing conditions at $26,000.

(2) Any price now accepted from British Government would necessarily form price basis for future manufacture for United States Government.

(3) United States Government have recently purchased 6-inch howitzers, including carriage and limber, comparable with the 8-inch guns in every way except as to size, at $30,425 each.

Therefore, Midvale Steel Co. insist, while they desire meet views of Ministry of Munitions of War and of doing this business, they cannot meet suggestion contained your 14974, and if this insisted upon would have to drop whole matter. They now offer, however, as final concession in this matter to manufacture 100 8-inch howitzers with carriage and limber, at price of $27,500 each, stated our 15971, for 200 such guns. Delivered your cable in entirety to W. E. Corey, yesterday, who then stated very frankly would meet your views even though he did not make a dollar on the order, provided on investigation he did not find this would jeopardize future relations between Midvale Steel Co. and U. S. Government. He now finds, as above outlined, that such relations would be seriously affected by accepting your suggestion and therefore states you may regard their offer herein as Midvale Steel Co.'s last word. We would add for your information that, in hearing before Committee on Naval Affairs, United States Senate, last week, strong pressure was brought to bear on American manufacturers, charging discrimination against United States Government in favor of foreign governments for whom work had been done at lower prices. Midvale Steel Co. state, if offer herein contained accepted, Ministry of Munitions of War should take immediate steps to facilitate prompt initiating of manufacturing processes insuring earliest practicable deliveries by detailing competent shopmen or Army officers, or both, to cooperate with its officials.

Morgan.

GWB.

("Exhibit No. 2319" appears in text on p. 8185)

("Exhibit No. 2320" appears in text on p. 8186)

("Exhibit No. 2321" appears in text on p. 8187)

("Exhibit No. 2322" appears in text on p. 8188)

("Exhibit No. 2323" appears in text on p. 8188)

("Exhibit No. 2324" appears in text on p. 8189.)

EXHIBIT No. 2325

J. P. MORGAN & Co.,
New York, Jan. 4th, 1915.

[Copy of telegram despatched to H. H. Harjes, Esq., Paris]

333. Your 673. Amounts involved so large that we are almost at entire loss how proceed. No hope of arranging even double tentative amount suggested by us without enlisting co-operation leading institutions outside cities, which for moment we are unwilling attempt. If that party requires, as you indicate, 150 as total for past, present, and near future operations, it is then clear she must export gold on large scale or enter into some joint undertaking with British Government, or give us time confer here with all chief interests looking towards acceptance proposition on a very large scale, in which we should be obliged seek open approval of Federal Reserve Board at Washington inasmuch as such steps would involve co-operation of many national banks and adoption of a policy by Administration towards all belligerents alike.

We shall await your further comments meanwhile conferring privately with associates like G. F. Baker.

EXHIBIT No. 2326

$25,000,000 Russian Government 90-day sight bills

J. P. Morgan & Co	$3, 000, 000
National City Co., Samuel McRoberts, chairman	3, 200, 000
First National Bank, F. L. Hine, pres	750, 000
Guaranty Trust Co., A. J. Hemphill, pres	3, 500, 000
Bankers Trust Co., D. E. Pomeroy, vice pres	2, 500, 000
Chase National Bank, A. H. Wiggin, pres	2, 500, 000
Mechanics & Metals N. B., G. W. McGarragh, pres	500, 000
Central Trust Co., J. N. Wallace, pres	1, 500, 000
Liberty National Bank, Thomas Cochran, pres	1, 000, 000
National Bank of Commerce, J. S. Alexander, pres	3, 500, 000
Amer. Ex. Natl. Bank, Lewis L. Clarke, pres	800, 000
N. Y. Trust Co., Otto T. Bannard, pres	1, 000, 000
Brown Bros. & Co	1, 000, 000
First National Bank, Boston, Daniel C. Wing, pres	250, 000
	25, 000, 000

("EXHIBIT No. 2327" appears in text on p. 8192.)

EXHIBIT No. 2328

[Copy of telegram despatched to Morgan, Harjes & Co., Paris]

J. P. MORGAN & Co.,
New York, Mar. 15, 1915.

491. Your 759. Duration option not very material to us. These friends seem wish money so earnestly that we have no misgivings as to our being able secure second lot at same prices as first. We talked of selling three and five year maturities at 5.90 interest basis. Whole operation including bankers' commission would cost 6.40%. We are now, however, somewhat more dubious as to our ability form syndicate on basis mentioned, even if your friends request it.

EXHIBIT No. 2329

J. P. MORGAN & Co.,
New York, Mar. 17, 1915.

[Copy of telegram despatched to Messrs. Morgan, Harjes & Co., Paris]

496. Your 761. Our 486, 491. Figures given your 761 exactly correct. We also should have preferred straight commission transaction but thought that such form of transaction might be more difficult politically for your friends. Therefore we devised this special exchange transaction in which our commission included. If transaction had gone through along lines suggested we should have planned subject alteration on account market conditions to offer yearlings 5% discount basis, three years and five years both 5.90% basis which would mean approximate commission for our group as follows: One year 1%, three years 1½%, five years 2%. Trust this explanation makes clear exact nature original suggestion. Since that was made security market here has gone decidedly flat. Are therefore convinced impossible form group underwrite firm amount and terms mentioned. If terms are altered so as permit us offer one year at 5½% straight three and five years 6% with commissions to group as just stated above we might be able to do something.

We realize these rates are high and should not for moment urge France consider them, but we must face investment conditions here as they are at present. No belligerent country's securities are popular and while faith in France undoubted, investors will not be attracted by her securities except at high interest rates. As conditions are today they regard your securities as no whit better than Switzerland not at war.

For your information, in recent Swiss offering which was virtually without commitment on part of banking group, commission paid ran up to 2½%.

Suggestion which we made last week was due urgent request Jusserand and Leon that we should try work out some suggestion on behalf your friends, our own advice being that owing to necessarily high rates interest involved, it might be more creditable for France do nothing at present although we must point out to you that proposed basis to investor not materially above what your new ten-year bonds will cost Government if they are redeemed end five-year period.

EXHIBIT No. 2330

J. P. MORGAN & Co.,
New York, Mar. 18, 1915,
(Rec'd. Mar. 19th).

[Copy of telegram received from Morgan, Harjes & Co.]

765. Thanks for your clear 496. Your efforts much appreciated by French Government which, however, considers operation still too complicated and expensive. Can you not make them a tentative and somewhat more advantageous offer for one category of notes, say one year at a fixed price in dollars, perhaps including your commission, or two- or three-year notes with a straight commission. Failing this, can you not make arrangements for some form of commercial credit, say for six months which would not cost more than, say about 6% in all. What French Government wants is apparently not so much financial accommodation as to secure dollars and thus overcome present exchange situation.

EXHIBIT No. 2331

J. P. MORGAN & Co.,
New York, Mar. 18, 1915.
(Rec'd. Mar. 19th).

[Copy of telegram received from Morgan, Harjes & Co.]

766. Refer our 765. As another suggestion, could you, for instance, make proposition that you would attend to all payments of purchases up to a certain amount and up to given period and be willing receive in exchange therefor six months Treasury notes at present rate of exchange on basis of, say 5½% plus commission of say ½%?

Exhibit No. 2332

J. P. Morgan & Co.,
New York, Mar. 19th, 1915.

[Copy of telegram despatched to Morgan, Harjes & Co., Paris]

504. Your 765. For your private information. We are now working on question issuing for account your friends up to $50,000,000. One year notes on 5½% basis, our commission, about which we are as yet undecided, to be in addition. Hope to be able have our ideas in definite shape by Monday. Until then prefer not take up question commercial credits.

Your 766. This plan impracticable because it is necessary for us re-sell these notes to investors and it would be impossible do so when amount which we might have for sale would vary so from day to day.

Will keep you informed as to developments.

Jack sailed on steamship "Philadelphia" yesterday for England.

Exhibit No. 2333

J. P. Morgan & Co.,
New York, Mar. 22, 1915.

[Copy of telegram despatched to H. H. Harjes, Esq., Paris]

510. Our 504. Are suggesting to Leon, who is transmitting to Washington, that we form group to offer twenty-five or fifty million dollars, as we may mutually decide after testing market, one year 5% notes at 99½. Of this amount we take firm $10,000,000, charging an inclusive commission on total sales of ¾%, out of which we shall pay for employment of distributing houses throughout country, expenses of advertising, etc. For your own information, we should expect retain only ½% for group which includes McRoberts and Baker.

We believe in present state of investment opinion, which rather adverse to any belligerent note, it would be exceedingly wise for your friends readily accede to this small extra commission payment for purpose of securing interest and active co-operation banking institutions of leading cities throughout country, in hope of thus establishing these French notes and paving way for later more extensive operations. Opportunity for doing this apparent, because no one of belligerents has yet undertaken similar operation.

Total inclusive cost this proposed one year operation 6¼% as contrasted with 6% which they might agree to on six months operation as per your 766. In our judgment, extra ¼% more than offset by advantages yearlings and of proposed wide distribution. These are points which we explain fully to you because as banker you will appreciate them, whereas Leon and his chief do not understand them. Further, your friends must lay down dollars in New York, and if they fail pay rate that will result in creditable loan operation, then they must pay as much or more in exchange.

Your 767. Exceedingly difficult make alternative proposition as requested, for, in order secure helpful co-operation banking community, we must be clear cut in our propositions and not confuse by offering alternatives. Our judgment is, suggestion as outlined will be more effective for your friends than trying work out your 766, 767.

("Exhibit No. 2334" appears in text on p. 8194.)

Exhibit No. 2335

[Memorandum as submitted to M. Leon on March 23rd, and initialled by him; superseding the one dated March 22d, which was canceled]

M. L.

MEMORANDUM

The following memorandum is submitted for the benefit of the French Republic:

1. An amount of $25,000,000 or $50,000,000, as may later be determined, of French one-year 5% notes to be offered upon a 5½% basis.
2. Of the total issue, whatever it may be, Messrs. J. P. Morgan & Co., National City Bank, First National Bank, and such, if any, associates as they may elect, to take firm $10,000,000.

3. An inclusive commission of three-quarters of 1% to be paid, out of which the group mentioned must arrange for its own compensation, for the compensation of associated banks and trust companies where these securities may be offered throughout the country, for expenses of advertising, etc.

4. The following clauses to be embodied as to the issue:

The notes to be of the denomination of $1,000, or Fcs. 5,181.25.

The notes to be payable in francs or dollars, at the option of the holder, at Paris or in New York, at the office of J. P. Morgan & Co., at the par of exchange, or Fcs. 5,181.25 per $1,000.

This obligation is exempt from all present and future French taxes, including any income tax.

Payment of interest on the notes and payment of the principal thereof shall be made in time of war as well as of peace without consideration of the holder's nationality being that of a friendly or hostile state, and without proof being required in that regard.

Provisions for the registration, and place of registration, in New York, of the principal of the notes, should be made.

The group may see fit to attach hereto other provisions such as are usual in the issuance of notes, and such as are of value in indicating to the investor the merits of the security.

The proceeds after conversion into dollars to remain on deposit with such Institutions as Messrs. J. P. Morgan & Co. may indicate, and to be expended only for purchases made by the French Republic in this country.

March 23, 1915.

("Exhibit No. 2336" appears in text on p. 8195.)

("Exhibit No. 2337" appears in text on p. 8195.)

Exhibit No. 2338

[Copy of telegram received from Morgan, Harjes & Co., Paris]

J. P. Morgan & Co.,
New York, Mar. 27, 1915,
(Rec'd. Mar. 29, 1915.)

773. Have received no answer to our 770. Minister of Finance has to make payments on Monday or latest Tuesday of $12,719,000. Have assured him that he can anyway count on your placing $10,000,000, on Monday to his credit with French Consul. This must be done somehow without fail as Minister of Finance is relying on you and hopes you can go up to the $12,719,000. Please confirm urgently that this is in order. For your guidance Minister of Finance will need in New York $14,500,000, towards 7th April and further $1,000,000 about 15th. Please let us know as soon as you are in position to do so whether he can also depend on you for these latter amounts.

Exhibit No. 2339

66/116 559

[Copy of telegram received from Morgan, Grenfell & Co.]

J. P. Morgan & Co.,
Export Department,
New York, Mar. 29, 1915.

2632. Believe it will be desirable for the present to work along all the lines by which we can create exchange. Ask Strong if Federal Reserve Board have decided as to approving purchase by Federal Reserve banks of bills drawn by joint stock banks here on U. S. of America acceptors, proceeds to be used for export materials.

Very glad about French business, but understood before leaving Washington did not wish be placed in position approving or disapproving any steps taken to arrange deferred payments for materials supplied from United States, so presumed we were free do as seemed wise to us without regard to opinion there.—J. P. Morgan.

Morgan.

EXHIBIT NO. 2340

[Copy of telegram despatched to Messrs. Morgan, Harjes & Co., Paris]

J. P. MORGAN & CO.,
New York, Mar. 29, 1915.

522. Your 773, 776. Cabled you Friday explaining Washington delay matter. This has now been cleared up. Are tonight submitting formal proposal to Ambassador which presume he will accept promptly and matter will then be concluded. Upon receiving, his acceptance tomorrow will credit consul's account $10,000,000.

Meanwhile, for your information, are allowing Consul overdraft his requirements of today. Hope offer notes Thursday. Meanwhile until we see how they are taken unable make credits over ten million. If notes go well they will fully provide for amounts which you state in your 773 but your friends must be prepared to meet their obligations if notes do not sell.

EXHIBIT NO. 2341

MAURICE LÉON,
COUNSELLOR AT LAW,
New York, March 31st, 1915.

Messrs. J. P. MORGAN & CO.,
National City Bank of New York.
First National Bank of New York.

GENTLEMEN: In accordance with your message received through Messrs. J. P. Morgan & Co. your letter under date of the 29th addressed to His Excellency, Mr. Jusserand, the Ambassador of France to the United States and which I handed to the Ambassador yesterday morning was corrected as follows:

> YOUR EXCELLENCY: We, the undersigned, J. P. Morgan & Co., National City Bank and First National Bank, of New York City, propose to offer at 99½% of par, and interest, such amount as you and we may hereafter agree upon, up to $50,000,000, of five percent *Treasury* ~~gold~~ *bonds* ~~notes~~ of the French Republic, to be dated April 1st, 1915, to mature April 1st, 1916, and to bear interest coupons payable respectively on October 1st, 1915, and April 1st, 1916.
>
> Of the total issue of such ~~notes~~ *bonds* we propose, in behalf of ourselves and associates, to buy outright at the price of 99½ and interest, $10,000,000.
>
> For the compensation of ourselves and our associates we propose to charge a commission of three-quarters of one percent upon the par value of the total amount of ~~notes~~ *bonds* bought or sold by us; such commission to be paid simultaneously with the credits we may give you resulting from the proceeds of these ~~notes~~ *bonds*. This commission shall be inclusive, and the expenses of advertising and offering shall be for the account of ourselves and our associates.
>
> The proceeds resulting from the sale of this issue of ~~notes~~ *bonds* are to be credited to the account of the French Republic in such institutions as we may indicate, and to be expended only for purchases made by the Republic in this country.
>
> The form of the ~~notes~~ *bonds* is to be mutually agreed upon by us, but the following general conditions are to apply to their issue:
>
> The ~~notes~~ *bonds* are to be designated as French Treasury bonds, and are to be of the denomination of $1,000 or fcs. 5,181.25.
>
> The ~~notes~~ *bonds* are to be payable, at the option of the holder in dollars in New York at the office of Messrs. J. P. Morgan & Co., or in francs in Paris at the French Public Treasury, at the rate of fcs. 5,181.25 per $1,000.
>
> The obligation represented by this ~~note~~ *bond*, and all payments in discharge thereof, are and shall be exempt from all present and future French taxes, including any income tax.
>
> Payment of interest on the ~~notes~~ *bonds* and payment of the principal thereof shall be made in time of war as well as of peace without consideration of the holder's nationality being that of a friendly or hostile state, and without proof being required in that regard.
>
> Proper provisions for the registration, and place of registration, in New York of the principal of the ~~notes~~ *bonds* to be made; usual charges in the payment of coupons not exceeding ⅛% upon the amount of interest disbursed, to be made.

Your acceptance in behalf of the French Republic of our proposal as set forth in this letter, upon the terms specified, will constitute the agreement between us and the French Republic.

Yours very truly,

(Sgd.) J. P. MORGAN & Co.,
(Sgd.) THE NATIONAL CITY BANK OF NEW YORK,
By F. A. VANDERLIP, *P't.*
(Sgd.) FIRST NATIONAL BANK OF NEW YORK,
By F. L. HINE, *Pres't.*

His Excellency, JULES J. JUSSERAND,
French Ambassador.

I have handed each of you a triplicate acceptance subscribed by the Ambassador as follows:

AMBASSADE DE LA REPUBLIQUE FRANCAISE
AUX ÉTATS-UNIS,
Washington, le March 30th, 1915.

GENTLEMEN: I beg to acknowledge receipt of the letter of the 29th inst. simultaneously signed by J. P. Morgan & Co., the National City Bank, and the First National Bank of New York, concerning the issue of five per cent French Treasury bonds to be offered at 99½% of par, to be dated April 1st, 1915, and mature April 1st, 1916, and the total amount of which may reach 50 million dollars.

In accordance with the instructions received from my Government, I have the honor to state that I accept, on its behalf, the clauses and conditions stated by you with the only exceptions of:

1st. The word *gold* notes, which I gather from your telegram of to-day's date, is to be considered as duly erased from your said letter; the bonds will, therefore, be called, like those issued in November last, French Treasury bonds ("Bons du Trésor Public Francais").

2nd. The statement, new to me and to which no allusion had been made before, concerning "the usual charges in the payment of coupons not exceeding ⅛% upon the amount of interest disbursed, to be made." As I was unaware of this request before this morning, I am without instructions as to its being considered acceptable or not by my Government, to whom I have cabled.

Availing myself of the powers I have received, I have appointed to sign the bonds, on behalf of the "Contrôleur Central du Trésor Public", Mr. Heilmann, Commercial Attaché to this Embassy; and on behalf of the "Caissier Payeur Central", Mr. d'Halewyn a member of the personnel of the French Consulate General, New York.

The same letter is being sent to the three signatory banks.

I have the honor to be, Gentlemen,

Sincerely yours,

(Sgd.) JUSSERAND.

Will you be good enough to confirm the receipt from me of such acceptance?

Yours very truly,

MAURICE LÉON.

("EXHIBIT No. 2342" appears in text on p. 8198.)

EXHIBIT No. 2343

MAURICE LÉON, COUNSELLOR AT LAW,
New York, April 1st, 1915.

MESSRS. J. P. MORGAN & Co.,
NATIONAL CITY BANK OF NEW YORK,
FIRST NATIONAL BANK OF NEW YORK.

GENTLEMEN: I beg to confirm the information which I gave Messrs. J. P. Morgan & Co. yesterday at the direction of His Excellency, the Ambassador of France to the United States, namely:

1st: That the French law of March 27th, 1915, provides for an increase of the authorized amount of French Public Treasury bonds to four and a half billion francs and that said law was promulgated and published in yesterday's issue of the Official Journal of the French Republic. A copy of the Official Journal of March 31st containing said law will be furnished to you on its receipt in due course by the Embassy.

2nd: That the French Government approves the clause in your letter under date of the 29th ult. to His Excellency relating to a banker's charge not exceeding one-eighth of one percent on the amount of interest paid on the presentation in New York of coupons belonging to the issue of dollar and franc one year French Public Treasury bonds dated April 1, 1915.

In accordance with instructions received this morning from the Ambassador I have made final corrections in the proof of bonds with coupons, talon and stub attached furnished by the American Bank Note Company, the text of said proof as corrected being approved by the Ambassador.

Very truly yours,

MAURICE LÉON.

EXHIBIT No. 2344

Republic of France 1-year 5 percent treasury bonds, dated April 1, 1915, syndicate

	Actual participation based on sales	Commission and profit paid to participants June 3, 1915
American Exchange National Bank	$5,000	$10.08
Bankers Trust Company	2,000,000	4,032.50
Becker & Co., A. G	200,000	403.25
Bond & Goodwin	58,000	116.94
Brown and Sons, Alexander	85,000	171.38
Brown Bros. and Co	500,000	1,008.13
Callaway, Fish & Co	350,000	705.69
Chase National Bank	1,000,000	2,016.25
Chase National Bank, a/c client	100,000	201.63
Clark, Dodge & Co	56,000	112.91
Colgate, Parker & Co	100,000	201.63
Curtis & Sanger	108,000	217.76
Dominick Bros. and Co	30,000	60.49
Dominick & Dominick	66,000	133.07
Drexel & Co	233,000	469.79
Eastman, Dillon & Co	500,000	1,008.13
Fanshawe & Co., W. S	1,040,000	2,096.90
Farmers Loan and Trust Co	1,000,000	2,016.25
First National Bank, Boston, Mass	255,000	514.14
First National Bank, New York	251,000	506.08
First and Old Detroit National Bank, Detroit	50,000	100.81
First Trust and Savings Bank, Chicago	500,000	1,008.13
Fisk & Sons, Harvey	43,000	86.70
Francis Bro. and Co	25,000	50.41
Frazier & Co	100,000	201.63
Gillespie, Livingston & Co	60,000	120.98
Glendinning & Co., Robert	500,000	1,008.13
Guaranty Trust Company	1,305,000	2,631.21
Hambleton & Co	73,000	147.19
Hornblower & Weeks	7,000	14.11
Kean, Taylor & Co	640,000	1,290.40
Kissel, Kinnicutt & Co	1,993,000	4,018.39
Lazard Freres	120,000	241.95
Lee, Higginson & Co	868,000	1,750.11
Liberty National Bank	400,000	806.50
Mechanics and Metals National Bank	500,000	1,008.13
Mellon National Bank, Pittsburgh	500,000	1,008.13
Montgomery, Clothier and Tyler	270,000	544.39
Moseley & Co., F. S	137,000	276.23
National Bank of Commerce	3,500,000	7,056.88
National City Bank	2,969,000	5,986.25
Old Colony Trust Company	250,000	504.06
Potter, Choate and Prentice	26,000	52.42
Robinson and Co. actually sold $100,000	50,000	38.31
Salomon & Co., Wm. actually sold $200,000	50,000	38.31
Salomon Bros. & Hutzler actually sold $200,000	100,000	76.63
Smith, Moore and Co., St. Louis, Mo	25,000	50.41
Strong, Sturgis and Co	100,000	201.63
Swartwout & Appenzellar	60,000	120.98
Spencer Trask and Co	250,000	504.06
Union Trust Company, New York	250,000	504.06
Union Trust Company, Pittsburgh, Pa	500,000	1,008.13
Watson, Williams & Co	20,000	40.33
White, Weld & Co	11,000	22.18

Republic of France 1-year 5 percent treasury bonds, dated April 1, 1915, syndicate—Continued

	Actual participation based on sales	Commission and profit paid to participants June 3, 1915
Whitney & Sons, H. N.	$5,000	$10.08
Winthrop & Co., Robert	25,000	50.41
Wood, Struthers & Co	75,000	151.22
Morgan & Co., J. P	151,000	1,968.19
Bigelow & Co	25,000	31.25
M. C. Bouvier & Co	25,000	31.25
Brown, Lisle & Marshall	1,000	1.25
Henry Clews & Co	1,000	1.25
Clarence Cone & Co	5,000	6.25
Continental & Commercial Trust & Savings Bank, Chicago	35,000	43.75
J. C. Dann & Co	35,000	43.75
Dick Bros. & Co	5,000	6.25
Equitable Trust Co	3,000	3.75
Fellowes, Davis & Co	5,000	6.25
Graham & Co	12,000	15.00
Halle & Stieglitz	12,000	15.00
Hallgarten & Co	5,000	6.25
Harris, Forbes & Co	5,000	6.25
Heidelbach, Ickelheimer & Co	100,000	125.00
Wm. Morris Imbrie & Co	9,000	11.25
A. Iselin & Co	50,000	62.50
Andre Jacobi & Co	400,000	500.00
Kidder, Peabody & Co	2,000	2.50
A. W. Kilborne & Co	35,000	43.75
Kimball, McKinney & Co	10,000	12.50
A. B. Leach & Co	100,000	125.00
Emerson McMillan & Co	150,000	187.50
Megargel & Co	1,000	1.25
Mercantile Trust Co., St. Louis, Mo	100,000	125.00
Eugene Meyer, Jr., & Co	10,000	12.50
Miller & Co	10,000	12.50
Millett, Roe & Hagen	10,000	12.50
Moore, Leonard & Lewis	3,000	3.75
Newburger, Henderson & Loeb	7,000	8.75
Post Bros. & Co	10,000	12.50
E. C. Randolph	30,000	37.50
Rhoades & Co	4,000	5.00
L. F. Rothschild & Co	25,000	31.25
Edmund Seymour & Co	26,000	32.50
R. D. Sterling	8,000	10.00
Taylor, Bates & Co	5,000	6.25
Joseph Walker & Sons	25,000	31.25
Williams, Nicholas & Moran	1,000	1.25
Wilson, Slade & Co	5,000	6.25
Robinson & Co	100,000	125.00
William Salomon & Co	200,000	250.00
Salomon Bros. & Hutzler	200,000	250.00
E. L. McClain	25,000	31.25
Low, Dixon & Co	10,000	12.50
	26,290,000	53,007.32

Exhibit No. 2345

[Confidential]

New York, *June 16th, 1915.*

[Stamped: Answered Jun 16, 1915, F. B. B.]

F. L. Hine, Esq.,
President, First National Bank,
New York City.

Dear Sir: We beg to advise that under the contract dated March 29th between the French Ambassador, on the one part, and ourselves, yourselves, and the National City Bank on the other part, we have disposed of a total of $26,200,000 French Republic One-Year 5% Treasury bonds (including the $10,000,000 purchased firm).

After deducting from the compensation of ¾% received such expenses as were incurred in connection with the issue and sale of these bonds, there remains

$104,370.65; and for your one-quarter share of this amount we enclose check to your order for $26,092.66, receipt of which please acknowledge in final settlement of your interest in this business.

Yours very truly,

J. P. MORGAN & Co.

Enclosure.

EXHIBIT No. 2346

French Republic 1 yr. 5% bonds syndicate a/c 4/1/15

DEBIT

1915	
Apr. 5. Cost of $23,706,000 bonds @ 99¼	$23, 541, 375. 00
Apr. 5 to May 3. Cost of $2,622,000 bonds purchased and taken from purchasers	2, 605, 775. 12
Total	26, 328, 000. 00
Apr. 6. Insurance and postage	9. 00
Apr. 20. Advertising French loan	24, 603. 03
May 3. Stationery, printing, and cables	12, 947. 07
May 8. Cables	174. 06
May 13. Telegrams	31. 03
May 19. Printing and signing bonds	3, 330. 00
June 2. ⅔ of amt. credited to adjust excess charges for expenses May 3	1, 666. 67
June 3. ⅛% Commission & profit .076625 on participation of $26,290,000 paid participants (58)	53, 007. 32
Total	26, 242, 918. 30

Offiering circular 3/30/15—⅛% on sales all by participant, plus share of group profit above 99¼ (on bonds sold)

CREDIT

1915	
Apr. 5 to May 3. Sales: $26,328,000 @ 99½ & interest	$26, 212, 497. 28
May 3. ⅔ of expenses on sales of bonds transferred from purchasers a/c	25, 039. 40
May 26. Ditto	2, 356. 73
June 2. Overcharge May 3 of expenses required re sales of bonds	2, 500. 00
June 2. Cash from purchasers a/c	524. 89
Total	26, 242, 918. 30

French Republic 1 yr. 5% bonds dated 4/1/15—Purchases a/c

DEBIT

1915	
April 1 to 27th. Cost of $26,745,000 bonds, purchased from French Government @ 99½, ¾%	$26, 421, 892. 63
April 5. Cash to 1st Natl. Bank @ 98¾, $2,500,000	2, 470, 138. 89
Cash to Natl. City Bank, $2,500,000	2, 470, 138. 89
Cash to J. P. Morgan & Co., $4,706,000	4, 649, 789. 45
May 3. ⅔ of expenses to syndicate	25, 049. 40
May 26. ⅔ of expenses to syndicate	2, 356. 73
June 2. Cash paid syndicate to adjust distribution of syndicate profit	514. 89
June 16. ¼ of profit paid 1st Natl. Bank	26, 092. 66
¼ of profit paid Natl. City Bank	26, 092. 66
½ of profit paid to J. P. Morgan & Co	52, 185. 33
Total	36, 144, 251. 53

French Republic 1 yr. 5% bonds dated 4/1/15—Purchases a/c—Continued

CREDIT

1915		
April 1.	Cash from J. P. Morgan & Co., $5,000,000	$4, 937, 500. 00
	Cash from 1st Natl. Bank, $2,500,000	2, 468, 750. 00
	Cash from Natl. City Bank, $2,500,000	2, 468, 750. 00
April 5 to 27th.	Sale of $26,451,000 bonds @ 99¼, ¾ to 99¼ including transfer to syndicate	26, 267, 584. 86
	Retained by J. P. Morgan & Co., $294,000.	
June 2.	Overcharge May 3 on expenses	1, 666. 67
	Total	36, 144, 251. 53

French Republic 1 yr. 5% bonds dated 4/1/15 purchasers—Our participation a/c

Debit

1915		
April 1.	Subscription to 5,000,000 bonds @ 99½, ¾%	$4, 937, 500. 00
April 7 to April 23.	Cost of 326,000 bonds @ 99½, ¾%	322, 558. 47
April 30 to May 13.	Cost of 161,000 bonds @ 98⅛ to 99⅝	159, 971. 39
June 17.	To profit & loss on stocks and bonds	53, 480. 12
	Interest on dr. balances	3, 123. 55
		5, 476, 633. 53

Credit

April 5.	Proceeds 4,706,000 bonds @ 98¾, transferred to purchasers a/c	$4, 649, 789. 45
Apr. 6 to June 16.	Proceeds 781,000 bonds	774, 658. 75
June 16.	½ profit from purchasers a/c	52, 185. 33
		5, 476, 633. 53

French Republic 1 yr. 5% treasury bonds syndicate—Our participation

Credit

1915		
June 3.	By ⅛% com. and profit 0.00076625% on participation of 2,196,000 bonds	$4, 427. 69

Debit

June 3.	Profit on 100,000 bonds to Salomon Bros. & Hutzler	$76. 63
	Profit on 50,000 bonds to Wm. Salomon & Co	38. 31
	Profit on 50,000 bonds to Robinson & Co	38. 31
	⅛% paid on sales of 1,845,000 bonds	2, 306. 25
	To profit and loss	1, 968. 19

EXHIBIT No. 2347

160

J. P. MORGAN & COMPANY,
EXPORT DEPT.,
New York, May 28, 1915.

[To Ministere des Finances, Pour Harjes, Paris]

10047. Referring latter part our 10046. It is, of course, most unfortunate that French notes should sell so soon after issue on any such basis, particularly in view of no untoward event having occurred. Naturally this detrimental to French credit and would certainly make extremely difficult any further French financing. Of course, it would be very beneficial to entire Allies' situation if the market could be supported. We venture to suggest for your consideration the question of our buying in market for account of French Government notes up to £1,000,000, drawing on London therefor. We appreciate this suggestion may be shocking in view of urgent need of funds by French Government this market.

MORGAN.

EXHIBIT No. 2347–A

220/260

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, June 1, 1915.

[Dated May 30, 1915]

[Copy of telegram received from Harjes, Ministere Finances]

15057. Your 10046. Will answer first part concerning St. Paul and Pennsylvania loan tomorrow, Monday. In the meantime, however, will be glad if you can reconsider exact proportion of mixture, as proportion you require will be hard to establish, especially as about 90% of Pennsylvania issue supposed to be held in France and only 60% of St. Paul. Hope therefore you can give us more latitude.

As regards last paragraph and also your 10047, concerning French notes, we are all greatly shocked and upset, and unable to understand what is the reason sudden fall. Please give us your full views in detail to permit us to appreciate as comprehensively as possible exact causes and situation. In the meantime French Government authorize you to support market by buying for their account up to £500,000. Before drawing on London, advise us in time.

HARJES, *Ministere Finances.*

("EXHIBIT No. 2348" appears in text on p. 8200)

EXHIBIT No. 2349

LOAN TO DE ROTHSCHILD FRERES

May 28, 1915: The First National Bank, National City Company, and J. P. Morgan & Co. agreed to lend de Rothschild Freres, Paris, up to $30,000,000 on their prommissory notes maturing July 1, 1916, with interest at 5%; compensation was a commission of 1¼%. The notes were secured by deposit of Pennsylvania Railroad Company 3¾% French franc loan certificates due 1921, and Chicago, Milwaukee and St. Paul Railroad Company French 4% debenture due 1925.

June 15, 1915: It was agreed to increase the loan to $40,000,000.

1915	Amounts loaned	Pennsylvania collateral	St. Paul collateral	Commission of 1¼%
		Fcs.	*Fcs.*	
June 19	$23, 335, 562. 50	80, 427, 500	72, 462, 000	$291, 694. 53
June 26	6, 664, 437. 50	19, 322, 500	24, 463, 000	
June 26	10, 000, 000. 00	33, 713, 000	34, 090, 000	
June 26	2, 102, 632. 50	7, 987, 000	6, 238, 500	234, 588. 38
July 12	88, 147. 50	287, 500	310, 500	1, 101. 83
Sept. 25	2, 175, 000. 00		15, 000, 000	
Oct. 12	70, 615. 00		487, 000	
Total	44, 436, 395. 00	141, 737, 500	153, 051, 000	527, 384. 74

1¼% commission on the loan was received from French Commercial Agency account and applied as follows:

Expenses for cables, etc	$1, 000. 00
Morgan, Harjes & Co	105, 476. 95
First National Bank	105, 006. 58
National City Company	105, 006. 58
J. P. Morgan & Co	210, 894. 63
Total	527, 384. 74

August 20, 1915: Arrangements were made with Kuhn, Loeb & Co. whereby they agreed to buy all Pennsylvania bonds pledged under the loan, and such additional Pennsylvania bonds as might be acquired.

January 17, 1916: An arrangement was made for the sale to Kuhn, Loeb & Co. and the National City Company of the Chicago, Milwaukee and St. Paul Railway Company bonds pledged under the loan, and also such additional bonds as might be acquired by the French Government for whom de Rothschild Freres were acting.

The total amount of St. Paul bonds sold under the arrangement with Kuhn, Loeb & Co. and the National City Company was Fcs. 182,143,000 bonds and the total amount of Pennsylvania bonds was Fcs. 194,411,500.

J. P. Morgan & Co. underwrote one-quarter of the National City Company's purchase and sale of the Fcs. 182,143,000 St. Paul bonds and received profits on the sales as follows:

February 11, 1916	$162, 750. 00
January 2, 1917	18, 600. 00
March 4, 1919	577. 40
Total	181, 927. 40

Exhibit No. 2350

No. 882

J. P. Morgan & Co.,
Export Department,
New York, April 22, '15.

[Copy of telegram received from Morgan, Grenfell & Co., London]

2985. For H. P. Davison. Both Herman and I inexpressibly sad over the situation of French business in New York. There is one method suggested which seems to me might be considered. Rothschild told me they could probably send back to United States nearly the whole of the $25,000,000 Chicago, Milwaukee and St. Paul franc bonds, also the $25,000,000 Pennsylvania Railroad franc bonds. Both of these are due within few years. Rothschild suggested getting a loan on them. It occurs to me that possibly the U. S. railway companies concerned might like to buy them, issuing therefor other securities, which seems to me would be easier handled than a loan on franc bonds. Chief difficulty I see is that Pennsylvania Railroad business being in hands Kuhn, Loeb & Co. and they having considerable to say in regard to Chicago, Milwaukee & St. Paul, they might endeavor to prevent such a transaction taking place, but should be glad your opinion whether something could not be struck out of this idea. The French Government would acquire the bonds by giving new national defence bonds which pay better rate of interest. The United States railroad bonds could then be sold to parties in New York, if those parties could dispose of the securities; or possibly the railroads would take them up with other securities which could be disposed of in United States market. Please cable your views about this.—J. P. Morgan.

Morgan.

Exhibit No. 2351

J. P. Morgan & Co.,
Export Department,
New York, April 23, 1915.

[Copy of telegram despatched to Morgan, Grenfell & Co., London]

3036. For J. P. Morgan. Your 2985 most interesting and hopeful of working out something. Total issues of two securities mentioned each $50,000,000, not $25,000,000. Hardly possible that railway companies concerned would consider, repurchase for the reason that they now feel securities are nicely tucked away, but there is possibility might consider purchase small amount for sinking funds, especially Pennsylvania Railroad early maturities. Probably only way to handle that end would be to include Kuhn, Loeb & Co. in business, explaining this being attractive business on its merits and not taken up as accommodation to France. Meanwhile some plan of group loan with these securities as collateral strikes us as feasible. Is it your idea that Rothschild and leading institutions would make separate loans or that Banque de France would make time loan analogous to Bank of England demand loan? If matter ought to be handled promptly, then we should get loan proposition in shape for final consideration here by ourselves and associates and leave question of actual sale of securities until little later to be taken up discreetly. Your more complete views as to form of loan, promisor, et cetera, will be welcome. For your information, in reply Herman's request, are offering advance Government up to $10,000,000 at 4½ percent, against gold in transit or gold deposited with Herman for immediate shipment to us.—H. P. DAVISON. THOS. W. LAMONT.

MORGAN.

EXHIBIT NO. 2352

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, April 30, 1915.

[Copy of telegram received from Morgan, Grenfell & Co., London]

4122. For H. P. Davison. Your 3036. Group loan you speak of would be made either to French Government or to Rothschild, whichever you prefer. French Government would not consider operation worthwhile unless it could be done for, say $50,000,000 or $60,000,000. Think form of loan should be time loan on the securities for a year, possibly two. What would be your idea as to margin required? Loan made this way would enable us to take up the question later of exchange of securities, and Kuhn, Loeb & Co. would not have to be taken into consultation at present. Communicate your answer in this matter to H. H. Harjes who will be in Paris Monday.—J. P. M.

MORGAN.

EXHIBIT NO. 2353 220

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, May 1, 1915.

[Copy of telegram despatched to Harjes, Paris]

619. Jack's cable. After careful consideration with trio suggest following:

That we can probably take firm say thirty Rothschild and thirty Bank of France one year at 6%, to be secured by mixture in each of St. Pauls and Pennsylvanias, also very desirable if possible to have in addition some other American standard securities, in order to, perhaps lessen the amount of Pennsylvanias, which are of course first class, but in view payable in francs only, might raise question, whereas St. Pauls payable francs or sterling. Therefore mixture would go much better.

Loan should have margin of 20% upon New York value of securities, taking exchange into consideration. Securities agreed upon should be shipped to us to be held during life of the loan. It is our idea that we would issue certificates against the loan and in part place them with our friends, and perhaps a little more generally.

As to rate we would have been glad to have reduced below 6%, but after careful consideration are convinced that rate is fair and proper.

Suggestion that Bank of France make half the issue made as on account of legal limit, institutions could take twice as much in aggregate of two makers as of one. If for any reason bank cannot join, we could probably handle Rothschild issue, but perhaps for somewhat lesser amount.

While not a condition, we would suggest an option should be given us on the securities, which after loan is negotiated might be handled to decided advantage of owners. We think, however, would be most unwise from political standpoint prior to making of loan to raise question of sale or exchange of securities.

Please keep us posted any developments.

DAVISON.

Exhibit No. 2354

220/50

J. P. Morgan & Co.,
Export Department,
New York, May 17th, 1915.

[Copy of telegram received from Harjes, Paris]

826. In view of recent events Minister of Finance suggests that public opinion in U. S. A. likely more favourable to belligerents obligations than few weeks ago and that consequently some financial arrangement with France might now have better chance of success. Have you been able to ascertain general feeling and could you tell us whether in your estimation something could be done on the lines we discussed in London of a loan against St. Paul and Pennsylvania bonds or a commercial credit or preferably both, or any other method. Although recognizing lack of urgency, Minister of Finance naturally desirous of takingadvantage of any good opportunity. Even if something very big could not be done he feels as we do that the mere moral effect of additional financial assistance on your part would be of great help. Understand from Rothschild Freres, Paris, that original issuing banks consider they would be able to secure French bonds of Chicago Milwaukee & St. Paul and Pennsylvania up to a considerable amount. Refer to H. P. D.'s cable 619: In addition to objections referred to in my letter to you of fifth, consider margin asked too big. Now that you control future purchases, could you not arrange for these that sellers accept payment by means of renewable six months drawings on groups of U. S. A. banks to be arranged by you, drawings to be discounted at once. Anything that you can do in assisting financial future requirements of our friends will be much appreciated.

Harjes.

Exhibit No. 2355

J. P. Morgan & Co.,
Export Department,
New York, May 18, 1915.

[Copy of telegram despatched to Ministre des Finances pour Harjes, Paris]

10016. Your 826. In view President's note to Germany, situation here not at all clear. Therefore this inopportune time to reconsider general financing plan. However, we undoubtedly could arrange for loan on bonds along lines our 619. Before receipt your 826, we had contemplated and now propose that if considerable amount of Chicago, Milwaukee & St. Paul and Pennsylvania Railroad bonds could be bought on basis around existing quoted prices on Bourse, we might arrange some scheme of financing whereby we could induce companies to exchange or in some other way handle securities so that proceeds of purchase in dollars computed at exchange rate to be determined, say 5.35, would be credited here to French account. If loan proposition not now interesting, advise us whether you believe we could buy bonds. If so, about what amount and upon what basis. On receipt of information, we will give matter further consideration.

Morgan.

Exhibit No. 2356

J. P. Morgan & Co.,
Export Department,
New York, May 28, '15.

[Copy of telegram despatched to Ministre des Finances, pour Harjes, Paris]

10046. 15047. We make following proposal to you, good until close of business June 18th: Trio will make loan to Rothschild Freres, Paris, any amount up to $30,000,000 for one year from date of loan, all loan to bear same date and to be payable in dollars at office of J. P. Morgan & Co. Loan to bear 5 percent interest, payable semiannually, to be sold to us at 98¾ percent, to be secured by mixture of St. Paul 4% franc debentures due 1925, and Pennsylvania 3¾% franc loan due 1921, but not more than half Pennsylvania bonds. This discrimination not due to credit of companies, but is due to fact that St. Paul bonds are sterling as well as franc bonds. St. Paul bonds to be put in at $75 per 500-franc bond, which allows about 7 points margin based upon present price exchange, and $77.50 on 500-franc Pennsylvania bonds, which allows about same margin. Bonds to be deposited with J. P. Morgan & Co., New York City. We hope both Minister of Finance and Rothschild Freres, Paris, will appreciate that we wish to avoid being technical, but that strong prejudice prevails against loaning upon securities held in belligerent countries; that while we greatly regret annoyance and expense incident to shipment, it is necessary in order to handle loan. We would not wish guarantee of French Government upon notes, but would like an official letter from French Government guaranteeing payment of loan in dollars in New York City at maturity, which guarantee we would not expect to make public. Please answer promptly if this option accepted and steps taken to put matter through. We greatly regret to inform you that French notes recently sold by us here have been sold in this market today at 96¼, or about 10% basis.

MORGAN.

EXHIBIT No. 2357

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, June 7, 1915.
(Dated June 6, 1915.)

[Copy of telegram received from Harjes. Paris]

15086. Following is translation of a letter which we have handed to Minister of Finance today. Please cable promptly your confirmation. Translation begins:

As representatives of J. P. Morgan & Co., New York, we have the honor to confirm to you in their name the following agreement arrived at between the French Treasury, J. P. Morgan & Co., New York, and de Rothschild Freres, Paris.

Our New York house undertakes to allow to de Rothschild Freres, Paris, an advance in dollars up to $30,000,000, secured by Chicago, Milwaukee & St. Paul 4% 1925 bonds, and Pennsylvania R. R. 3¾% 1921 bonds, which will be accepted as guarantee upon the basis of 77½ dollars per bond for the Pennsylvania R. R. 3¾%, and $75 per bond for the Chicago, Milwaukee & St. Paul 4%.

This advance will be made in one lump for one year from a date which will be fixed later at the expiration of the option referred to hereafter.

This advance will bear interest at the rate of 5% per annum, payable half-yearly.

In addition, a fixed commission of 1¼% on the amount of the advance will be allowed to J. P. Morgan & Co.

In order to give the necessary time to secure the Chicago, Milwaukee & St. Paul and Pennsylvania R. R. bonds, a time option is given up to the 18th June inclusive, at the expiration of which the French Treasury will be called upon to take a definite decision, refusing or accepting the operation, and in the latter case fixing the amount for which it accepts.

This reply must be given to us in Paris in due course.

J. P. Morgan & Company not desiring to make an advance exclusively secured by the Pennsylvania R. R. bonds, would have wished in the deposit of the bonds a proportion of one-half of each category. However, desiring to facilitate in every way possible the realization of this operation, they do not insist upon this condition, but it is undertook that until the expiration of the option which they have given, they will be kept advised by cable, in due course, of the proportion of each category of bonds which becomes available as security, so that they may be able to judge if the proportion of each category does not exceed that acceptable by them, eventuality which they do not anticipate.

The French Treasury undertakes the transportation of the bonds to New York City, and will have them delivered to J. P. Morgan & Co., who will take delivery of same and hold them at the disposal of de Rothschild Frères, Paris. This latter house will have to arrange with J. P. Morgan & Co. for the bonds to be set aside as guarantee for the advance made to the French Treasury through the intermediary and under the name of de Rothschild Frères, Paris.

J. P. Morgan & Co. will credit de Rothschild Frères', Paris, account with them upon the date which will be fixed as that upon which the operation commences, of the amount of the advance, and that same day J. P. Morgan & Co. will transfer at once to the *credit of the French Treasury*, in an account on their books, this same amount, of which the French Treasury alone will have the right to dispose.

On the other hand, it is understood that the French Treasury considers itself entirely responsible, not only for the payment of the commission and interest, but for the payment of the capital, to J. P. Morgan & Co., resulting from the conclusion of the present operation.

Against the reimbursement of the amounts due to J. P. Morgan & Co., the bonds given as security will be liberated from their appropriation, and becoming liberated they will be at the disposal in New York, of the French Treasury.

We request you to be good enough to confirm to us that you are in accord with the foregoing, and remain, et cetera.

HARJES.

EXHIBIT NO. 2358

PARIS, *le 18 Juin 1915.*

Messieurs J. P. MORGAN & Co.,
New York.

MESSIEURS: Conformément aux accords intervenus entre le Trésor Français, votre Maison et la nôtre, d'après lesquels vous consentez à nous faire une avance en dollars pour le compte du Gouvernement Français destinée à être transférée le même jour au crédit du compte chez vous du Trésor Français, d'un montant de: $30,000,000 (trente millions de dollars) gagée par des Obligations 3¾% 1921 Pennsylvania et des Obligations 4% 1925 Chicago Milwaukee & Saint-Paul acceptées respectivement en garantie, sur les bases de $77.50 pour les premières et $75 pour les secondes, nous venons, par la présente, vous confirmer les engagements que nous prenons dans cette opération.

Nous acceptons, comme intermédiaires entre le Gouvernement Français et votre Maison, de figurer en nom pour l'avance.

Nous devrons, en conséquence, recevoir de vous toutes les sommes provenant de ladite avance. Il est entendu que toutes les sommes que nous recevrons ainsi de vous, dans ces conditions, seront transférées immédiatement au crédit du compte du Trésor Français dans votre Maison, lequel en disposera à sa convenance.

Par contre, nous prenons tous les engagements qui découlent du fait de cette opération, c'est-à-diré que nous nous engageons aux diverses échéances de cette opération d'avances, à vous rembourser les sommes qui vous seront dues tant en intérêts qu'en capital.

Vous recevrez directement du Gouvernement Français les Obligations Pennsylvania et Chicago Milwaukee and Saint-Paul qui servent de garantie a l'opération. Vous les conserverez entre vos mains comme gage et il est entendu que ces titres ne redeviendront libres que contre les payements que nous nous engageons à vous faire, aux échéances fixées, des sommes qui vous seront dues.

Il va de soi que dans le cas de non exécution de ces engagements vous êtes autorisés à réaliser le gage ci-dessus spécifié, conformément aux lois en vigueur de l'Etat de New York.

Recevez, Messieurs, l'assurance de nos sentiments distingués.

se Ruturinily.

EXHIBIT NO. 2359

220

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, June 21, 1915.

[Copy of telegram despatched to Morgan, Harjes & Co., Paris]

10143, 15139. Form of note as submitted is unsatisfactory, not being sufficiently clean-cut and specifically referring to other documents which, in order to make the records complete, would have to be attached. Furthermore, might be read as if de Rothschild Freres, Paris, were simply acting as agents, whereas they are principals in the instrument so far as lenders are concerned. Form of note should read as follows:

"On July 1st, 1916, for value received, we promise to pay J. P. M. & Co., N. Y., or order, $23,335,562.50, with interest at the rate of 5% per annum, payable semi-annually, principal and interest payable at the office of J. P. M. & Co., N. Y., there having been pledged with and delivered to J. P. M. & Co., N. Y., as collateral security for the payment of the principal and interest of this note Fcs. 80,427,500. S¾% Penn. R. R. 1921 bonds, and Fcs. 72,462,000. 4% Chicago, Milwaukee & 3t. Paul 1925 bonds."

As to date, this first note should be June 19th, other notes for succeeding amounts as of dates when we make several credits. You will note that we have suggested making them all payable July 1st, 1916, thinking that this is more clean-cut and will please your friends.

If you can arrange note in this form signed by de Rothschild Freres, Paris, without any reference French Government, we will waive any change in the loan agreement and also any specific provision in the note with reference default and power of sale.

Greatly hope French stamp matter can be arranged, otherwise we should be at a loss as to procedure.

MORGAN.

EXHIBIT NO. 2360

220

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, June 22, 1915.

[Copy of telegram received from Harjes, Ministere Finances, Paris]

15142. 10143. de Rothschild Freres prepared to sign form of promissory note as you wish, but with the following addition: (The present promissory note is created in virtue of an understanding agreed to between the French Treasury, J. P. Morgan & Co. of New York and our firm, and specified in the letter dated June 18th to J. P. Morgan & Co.)

Regret absolute necessity of including reference to French Treasury but it is only way can overcome French stamp matter and besides other insurmountable difficulties. Very greatly hope therefore that you will accept this solution as can see no other possible way out.

Please reply urgently.

HARJES, *Ministere Finances.*

EXHIBIT NO. 2361

220

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, June 22, 1915.

[Copy of telegram despatched to Ministere des Finances pour Harjes, Paris]

10155. 15142. Proposed addition of de Rothschild Freres, Paris, acceptable. We congratulate de Rothschild Freres and yourselves on reaching a satisfactory solution. Have made brief announcement this afternoon as heretofore suggested.

MORGAN.

EXHIBIT NO. 2362

220

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, June 17, 1915.

[Copy of telegram despatched to Ministere des Finances pour Harjes, Paris]

10126. 15123. Arrangements as stated perfectly clear and satisfactory. Government revenue stamps here necessary to make note legal amount to two cents per $100, invariably paid by borrower. Will you arrange this or is it too late? If so can charge it pro rata to any joint profit which accrues to us.

In view of fact this loan certain to leak out in garbled form, do you not regard it as wise for us announce briefly that Rothschild de Freres, Paris, have arranged to borrow in this market considerable amount, sum not to be mentioned, for year against satisfactory American Railroad securities, the proceeds having been placed here to credit French Republic.

Kindly cable promptly on this point.

MORGAN.

EXHIBIT No. 2363

JUNE 21, 1915.

[Copy of telegram received from Morgan, Harjes & Co., Paris]

15140. 10137. 15139. French stamp difficulty has been overcome. Therefore, de Rothschild Freres, Paris, prepared sign promissory note as cabled as soon as we receive confirmation that you are satisfied. Also they have included following phrase in their letter to you of June 18th:

(Translation begins) It goes without saying that in the event of the nonfulfilment of these engagements, you are authorized to realize the above-mentioned deposit in accordance with the laws in force in the State of New York. (Ends).

Trust that this arrangement is now entirely satisfactory and that you will see no necessity for changing any entries you have made for the French Republic Commercial Agency Account.

HARJES, *Ministere Finances.*

EXHIBIT No. 2363-A

J. P. Morgan & Co., summary of "Rothschild loan", June 21, 1915, to Jan. 24, 1916

Date 1915	Collateral received				Participations			Interest paid participants	Interest received		Rate	Payments received on loan			
	Description	Face value (francs)	Conversion rate	Amount loaned	Participant	Repayms. and transfers	Received		Period rate	Amount		Repayment of principal	Premium	Loan interest	Credit to loan
June 21	Penn. R. R. Co. 3¾% 1921	80,427,500	77.50		1st Natl Bank, N. Y (¼)		$5,833,890.62								
	C. M. St. P. 1925	72,462,000	75.00	$23,335,562.50	Natl. City Co (¼)		5,833,890.62								
					J. P. Morgan & Co (½)		11,667,781.26								
26	Penn. R. R. Co. 3¾% bonds 1921	19,322,500	77.50	2,994,987.50											
	C. M. & St. P. 4% bonds 1925	24,463,000	75.00	3,669,450.00	First Nat. Bk. N. Y (¼)		4,166,109.38								
	Penn. R. R. Co. 3¾% bonds 1921	33,713,000	75.00	5,056,950.00	Nat. City Co (¼)		4,691,767.50								
	C. M. & St. P. 4% bonds 1925s	34,090,000	72.50	4,943,050.00	J. P. Morgan & Co (¼)		9,909,193.12								
	Penn. R. R. Co. 3¾% bonds 1921	7,088,000	75.00	2,102,632.50											
	C. M. & St. P. 4% bonds 1925	7,168,500	72.50												
29					Chase Natl. Bank, transfer	$3,000,000.00	3,000,000.00								
					J. P. Morgan & Co., transfer										
					First Natl Bk, transfer		525,658.13								
30					J. P. Morgan & Co., transfer	525,658.13									
					First Natl. Bk	4,600,000.00									
					Nat. City Co	3,000,000.00									
					J. P. Morgan & Co	1,900,000.00									
					Chase Natl. Bk., a/c clients		4,250,000.00								
					Chase Natl. Bk		750,000.00								
					Mechanics & Metals Natl. Bk		1,000,000.00								
					Union Tr. Co		250,000.00								
					Hanover Nat. Bk		500,000.00								
					Natl. Pk. Bk		500,000.00								
					Natl. Bk. of Comm		1,250,000.00								
					Farmers Loan & Tr. Co		1,000,000.00								
July 1					J. P. Morgan & Co	6,950,000.00									
					Drexel & Co		1,250,000.00								
					Chase Natl. Bk., a/c clients		725,000.00								
					Seaboard Natl. Bk		100,000.00								
					Bank of N. Y		125,000.00								
					Importers & Traders Nat. Bk		125,000.00								
					Amer. Exch. Natl. Bk		400,000.00								
					Equitable Tr. Co		250,000.00								
					Empire Trust Co		100,000.00								
					U. S. Mtge. & Tr. Co		250,000.00								
					Columbia Tr. Co		250,000.00								
					Nassau Natl. Bk		50,000.00								
					Hamilton Tr. Co		50,000.00								
					First Natl. Bk. Boston		250,000.00								
					Ill. Tr. & Saving		500,000.00								
					Merchant Tr. & Deposit Co. Balt		100,000.00								
					First Natl. Bk., Pueblo, Cal		200,000.00								
					First Natl. Bk., St. Paul		200,000.00								
1					1st Natl. Bk., Cleveland		250,000.00								
					Kings County Trust Co		200,000.00								
					1st Trust & Savings Bk., Chic		500,000.00								
					Lincoln Tr. Co		50,000.00								
					Amer. Brake Shoe & Fdy		25,000.00								
					1st Natl. Bk., Cin		200,000.00								
					1st Natl. Bk., Detroit		250,000.00								
					Cont. & Comm. Natl. Bk		500,000.00								
					Central Bk., Rochester		50,000.00								
2					J. P. Morgan & Co	250,000.00									
					Security Trust Co., Roch		100,000.00								
					Alliance Bk., Roch		50,000.00								
					N. Y. Trust Co		100,000.00								
6					1st Natl. Bk	200,000.00									
					Natl. City Co	200,000.00									
					Citizens Savings & Tr. Co., Clev		300,000.00								
					1st Natl. Bk., Syracuse		50,000.00								
					Peoples Natl. Bk., Pitts		50,000.00								
7					Natl. City Co	300,000.00									
					People Natl. Bk., Pitts		100,000.00								
					Lincoln Natl. Bk., N. Y		100,000.00								
					2nd Natl. Bk., N. Y		100,000.00								
8					Natl. City Co	25,000.00									
					Batavian Natl. Bk., La Crosse		25,000.00								
					2nd Natl. Bk., N. Y		150,000.00								
					Natl. City Co	150,000.00									
12	Penn. Co. 3¾% bonds 1921	1,186,500	75.00	177,975.00	J. P. Morgan & Co		88,147.50								
	C. M. & St. P. 4's 1925	619,500	72.50	89,827.50											
16					Natl. City Co	50,000.00									
					Union Natl. Bk. of Newark		50,000.00								
17					J. P. Morgan & Co	100,000.00									
					Market & Fulton Nat. Bk		100,000.00								
19					Natl. City Co	100,000.00									
					Riggs Natl. Bk		100,000.00								
Sept. 25	C. M. & St. P. 4% bonds	15,000,000		2,175,000.00	J. P. Morgan & Co		2,175,000.00								
Sept. 27					J. P. Morgan & Co	1,087,500.00									
					First Natl. Bk		543,750.00								
					Natl. City Co		543,750.00								
30					(?)	22,239,272.73					101.095376	$21,759,375	$238,403.85	$296,104.87	$22,293,883.72
Oct. 1						27,333.32									
5						27,277.67									
14	C. M. & St. P. 4% bonds	487,000	72.50	70,615.00	J. P. Morgan & Co		70,615.00								
Dec. 31								565,819.90	(1)	565,819.90					
	Total: P. R. R. bonds, 141,737,500; C. M. & St. P. bonds, 153,051,000.	294,788,500		44,436,395.00		44,732,041.85	66,874,553.13	565,819.90		565,819.90		21,759,375	238,403.85	296,104.87	22,293,883.72
1916 Jan. 24						22,993,255.11					101.0750735	22,677,020	243,794.63	72,440.48	22,993,255.11
	Total	294,788,500		44,436,395.00		67,725,296.96	66,874,553.13	565,819.90		565,819.90		44,436,395	482,198.48	368,545.35	45,287,138.83

[1] To Jan. 1, 1916.

SUMMARY OF PROFITS TO PARTICIPANTS

Returned to participants:	
Principal	$44,436,395.00
Premium	482,198.48
Interest	368,545.35
Interest on loan to Jan. 1, 1916	565,819.90
	45,852,958.73
Less:	
Received from participants	66,874,553.13
Less transfers between participants	22,438,158.13
Amount loaned contributed by participants	44,436,395.00
Profits and interest paid participants	1,416,563.73

EXHIBIT NO. 2364

[File copy]

AUGUST 20TH, 1915.

Messrs. KUHN, LOEB & Co.,
Corner William & Pine Sts., New York City.

DEAR SIRS: We beg to confirm our agreement with you for the sale to you of certificates forming part of the Pennsylvania Company 3¾% French franc loan of 1906, under the following conditions:

(1) Subject to our obtaining, within twenty days, assurances satisfactory to the Pennsylvania Company on the points indicated below and subject to the completion of arrangements between you and the Pennsylvania Company for the issue of new certificates in exchange for said 3¾% certificates of the French franc loan of 1906, and for the stamping of the 3¾% certificates as payable in dollars only, we agree to sell to you and you agree to purchase from us 283,475 3¾% certificates of the face value of Fcs. 500 each at a price of Fcs. 486 per certificate plus accrued interest to the date of your payment therefor, such purchase price to be payable in dollars at the fixed rate of exchange of Fcs. 5.65 to the dollar. You are further to pay to us an amount which, allowing for the interest thereon at the rate of 3% per annum, will discharge interest at the rate of 2% per annum, payable on January 1st, 1916, and July 1st, 1916, on $77.50 per certificate of Fcs. 500 from the date when you pay for the same.

(2) Subject as aforesaid, we further agree to sell to you and you agree to purchase from us, at the price of Fcs. 485 per certificate of Fcs. 500, together with accrued interest to the date of payment, plus Fcs. 5 commission on each certificate of Fcs. 500, any and all additional 3¾% certificates of said issue of 1906 purchased for your account and delivered to Messrs. Morgan, Harjes & Co.; payment to be made to us in dollars at the fixed rate of exchange of Fcs. 5.65 per dollar. Messrs. Morgan, Harjes & Co. will cable us daily of the amounts of any certificates so purchased for your account and delivered to Messrs. Morgan, Harjes & Co., which amounts we will communicate to you daily.

Your agreement to purchase such additional certificates is, however, to be subject to termination at any time, upon three days' notice in writing to us at our office in New York City, provided that you are to accept and pay for all certificates which may have been acquired for the purpose of resale to you until the expiration in France of the third day after the receipt by us of such notice in New York. All certificates sold by us under either of the foregoing paragraphs are to be delivered to you against payment of the purchase price; the certificates actually in New York City to be delivered to you at our office and the certificates already purchased and not yet in New York or not yet purchased to be covered by delivery to you of our certificate in the form hereto attached, marked "Exhibit A."

(3) Payment for the 283,475 certificates of Fcs. 500 each is to be made to us, at our office in New York, within two weeks from the final consummation of the transaction upon six days' notice in writing to us of the date upon which payment is to be made. On additional purchases payment is to be made to us on the next business day following advices to you that the bonds have been deposited with Messrs. Morgan, Harjes & Co. At the time of such payments for the additional purchases we agree to deliver to you a certificate evidencing the deposit with Messrs. Morgan, Harjes & Co., the form of such certificate being in the form hereto annexed marked "Exhibit A." All certificates are to be delivered when received by us free of expense to you.

(4) It is a condition of your and our obligation under this agreement that we obtain within twenty days from this date assurances satisfactory to the Pennsylvania Company to the effect—

(a) That all certificates stamped as payable in dollars only in the United States shall be exempt and released from all French duties and taxes.

(b) That the Pennsylvania Company and the Pennsylvania Railroad Company shall be released in manner satisfactory to them from all obligations to remit to France funds for the payment of interest and of principal in respect of any certificates stamped as payable in dollars only in the United States or for the payment of any commissions on such funds.

(5) Upon the completion of your arrangements with the Pennsylvania Company for the issue of the proposed new certificates, you are to notify us to that effect and to proceed with the purchase, as above stated, of the certificates now deposited with us and such additional certificates as may be purchased. In case you have not completed arrangements with the Pennsylvania Company, as above

outlined, within twenty-five days of the date hereof, our agreement to sell 3¾% certificates as evidenced by this letter shall, at our option, terminate and neither you nor we shall be under any further obligations by reason of anything herein contained.

Yours very truly,

——— ———.

Enclosure.
AMA–SR.

Exhibit No. 2365

KUHN, LOEB & CO.,
William and Pine Streets, New York, August 20, 1915.

Messrs. J. P. MORGAN & CO.,
23 Wall Street, New York City.

DEAR SIRS: We beg to acknowledge receipt of your letter of even date and to confirm our agreement to purchase from you certificates and obligations forming a part of the Pennsylvania Company's 3¾% French franc loan of 1906, upon the terms and subject to the conditions therein stated.

Yours very truly,

KUHN, LOEB & CO.

E.

Exhibit No. 2366

KUHN, LOEB & CO.,
William and Pine Streets, New York, Sept. 23, 1915.

Messrs. J. P. MORGAN & CO.,
New York City.

DEAR SIRS: We beg to advise you that we are prepared to proceed under the terms of your letter to us of August 20, 1915, with the purchase of the French franc certificates now deposited with you and such additional certificates as may be purchased according to the terms of said letter, and, pursuant to the terms of paragraph 3 of said letter, we hereby give you notice that we shall be prepared to take up and pay for 283,475 certificates of Fcs. 500 each on September 30, 1915.

Kindly acknowledge receipt, and believe us,

Yours very truly,

KUHN, LOEB & CO.

E.

Exhibit No. 2367

561

PENNSYLVANIA LINES WEST OF PITTSBURGH,
GENERAL OFFICE,
Union Station, Pittsburgh, Pa., August 25, 1915.

Messrs. KUHN, LOEB & CO.,
New York, N. Y.

DEAR SIRS: In order to arrange for the issue, against the deposit of all or any part of the certificates and obligations constituting this company's 3¾% French franc loan of 1906 of the aggregate amount of Fcs. 250,000,000 (hereinafter referred to as the "old certificates") of certificates of a new issue, payable in the United States in dollars, this company has agreed with you as follows:

I. It has taken corporate action approving, and has made the necessary arrangements with the Girard Trust Company of Philadelphia for, the creation and issue from time to time, as hereinafter stated, of a new issue of certificates (hereinafter referred to as the new certificates) payable only in New York and Philadelphia and only in United States gold coin and in denominations of $1,000 each. The new certificates are to be limited to the aggregate amount of $48,262,500 at any time outstanding, are to mature June 15, 1921, are to bear interest at the rate of 4½% per annum, payable semiannually on June 15th and December 15th in each year, and are to be subject to redemption as an entirety, but not in part, on any semiannual interest date, on or after June 15, 1918, at par and accrued interest on sixty days' notice. The new certificates are to be secured by the deposit with the trustee of an equal face amount of the outstanding old certificates (Fcs. 500 being figured as $96.52½).

II. The trust agreement securing the new certificates, except as herein provided, is to contain generally the same provisions as the trust agreement of May 25, 1906, securing the old certificates. It shall provide that the principal and interest of the new certificates are to be payable only in the United States, in dollars, and neither the trust agreement nor said new certificates shall contain any provision in reference to French duties or taxes, and it shall provide for the issuance of temporary certificates. It shall provide that in the event of default in the payment of the principal or interest of the new certificates, the old certificates shall not be sold, but the trustee under the new agreement shall be entitled to exercise for the benefit of the holders of the new certificates all rights which as a holder of the old certificates it may be entitled to assert under the French franc loan agreement. It shall further provide that in case this company shall elect to redeem the old certificates, which by the terms of the trust agreement of May 25, 1906, it can do only as an entirety, a proportionate amount of each class of collateral pledged under said trust agreement of 1906, to secure the old certificates shall be substituted for such of the old certificates as may at that time be deposited under the new trust agreement to secure the new certificates. It shall further provide that pending the actual deposit with the Girard Trust Company, trustee, in the United States of any of the old certificates, new certificates are to be issued upon the receipt by the said trustee under the new trust agreement of a certificate in the form attached hereto, marked "Exhibit A", or upon the receipt by the trustee of any other assurances satisfactory to it that old certificates have been acquired and will be deposited with it. The new trust agreement shall also contain such other modifications as counsel may advise to be appropriate to effectuate the purposes hereby intended to be provided for relating to the issue of new certificates. This company and the Pennsylvania Railroad Company are to assume the same obligations in regard to the payment of the new certificates as they have assumed in regard to the payment of the old certificates.

III. Every old certificate acquired and deposited under the new trust agreement shall be so stamped by this company and the Pennsylvania Railroad Company as to impose on these companies the obligation to pay as principal and guarantor, respectively, the principal and interest thereof in gold coin of the United States in New York or Philadelphia, $96.52½ to be treated as the equivalent of the face value of each certificate of Fcs. 500; and also, if required by you, said old certificates shall be further endorsed with the statement that they have been withdrawn from circulation in France. They may also, at the option of this company, be endorsed to the effect that they are not negotiable but held only as security for the new certificates.

IV. This company will issue and deliver to you or upon your order new certificates, dollar for dollar, at the rate of $96.525 for Fcs. 500, above stated, in exchange for old certificates delivered by you for deposit under the new trust agreement, and will issue such new certificates only upon your request. Upon the consummation of any such exchange the old certificates shall become the absolute property of this company, but they shall be forthwith deposited and pledged under the new agreement. Any net profit realized by you in the acquisition of the old certificates and the sale of the new certificates delivered to you in exchange therefor, after setting aside certificates as provided in clause V, subdiv. b hereof, shall be divided equally between this company and yourselves, but this company shall not participate in any loss which you may incur in the transaction. It is understood that you may sell said new certificates or any of them to a syndicate or otherwise, or may procure the sale of the same to be underwritten, and in case you do so, the profit to be divided between us shall be based upon the price at which the certificates shall be sold to such syndicate or otherwise or underwritten, but you may participate in any such sale to a syndicate or otherwise or underwriting without accounting to us for any profit upon such participation.

V. Such issue and delivery of the new certificates shall be further subject to the following conditions:

(a) Prior to the issuance of any of the new certificates, this company is to be furnished with a letter or a certified copy of a letter from the French Minister of Finance (or assurance satisfactory to it from Messrs. J. P. Morgan & Co., that such a letter has been delivered to Messrs. Morgan, Harjes & Co. in Paris) in substance as follows: "I beg to inform you that in view of the circumstances I have decided quite exceptionally that the bonds of the Pennsylvania Railroad 3¾%, 1906, loan, which have been bought in France and sent to the United States under the conditions to which you refer, will cease to be subject to the French stamp and transmission taxes and to the revenue tax of 4% on securities. In order to avail of this exemption the securities must be as indicated by you stamped to the effect that capital and interest are hereafter payable in dollars in the United States" and is to receive similar assurances as to any old certificates which may be hereafter acquired and stamped as aforesaid; and also with an agreement, or a contract from parties satisfactory to it to procure an agreement, from the Credit Lyonnais and the Banque de Paris et des Pays-Bas, irrevocably releasing this company from all obligations assumed by it under the trust agreement dated May 25, 1906, to remit to France funds for the payment of the principal and interest of any of the old certificates which may be stamped as payable in dollars only or any commission on such funds.

(b) For the purpose of providing a fund to reimburse this company for the difference of ¾% per annum between the 3¾% per annum interest payable on the old certificates and the 4½% per annum interest payable on the new certificates, there shall be set aside in the hands of this company out of the new certificates deliverable to you in exchange for the old certificates deposited, an amount of new certificates sufficient, if sold on a 5% interest basis semiannually as the funds are required, to provide the difference of said ¾% per annum. In case there shall at any time be a deficiency in the said fund by reason of such reserved certificates being sold on a higher interest basis or otherwise, such deficiency shall be made good by this company and yourselves in equal shares, and if upon the maturity or prior redemption of the new certificates any surplus shall remain in such funds, it shall be divided equally between this company and yourselves.

(c) All expenses of this company in connection with the issuance of the new certificates, as well as your expenses in connection with the acquisition of the old certificates and the sale of the new certificates, shall be a charge upon the profits hereinabove in paragraph IV referred to.

Kindly confirm that the above is in accordance with your understanding.

Yours very truly,

(Signed) Edward B. Taylor,
Second Vice President.

Pencil notation: Copy of form, Mr. de Gersdorff]

Exhibit A

PENNSYLVANIA COMPANY CERTIFICATE OF DEPOSIT OF CERTIFICATES AND OBLIGATIONS ISSUED UNDER TRUST AGREEMENT SECURING THREE AND THREE QUARTERS PERCENT FRENCH FRANC LOAN OF 1906.

To be deposited under trust agreement of ———, 1915

This is to certify that Fcs. ——— of the certificates and obligations constituting the three and three-quarters percent French franc loan of 1906 of the Pennsylvania Company, issued under the trust agreement dated May 25, 1906, between the Pennsylvania Company, Pennsylvania Railroad Company, Girard Trust Company, and the United States Trust Company of New York, have been deposited with Morgan, Harjes & Co., for delivery to J. P. Morgan & Co., and when received by J. P. Morgan & Co. will be delivered to the ——— Trust Company, as trustee under the trust agreement, dated ——— 1915, between the Pennsylvania Company, the Pennsylvania Railroad Company and said trust company.

For value received, we hereby sell, assign and transfer all our right, title and interest in the above-mentioned ——— Fcs. ——— certificates to the ——— Trust Company, as trustee as foresaid.

Dated, New York, ——— 1915.

Exhibit No. 2368

[File copy]

August 26, 1915.

Edward B. Taylor, Esq.,
Second Vice President, Pennsylvania Company,
Pittsburgh, Pa.

Dear Sir: We beg to acknowledge receipt of your favor of yesterday's date, and to confirm the agreement between your company and ourselves, as stated by you in connection with the arrangement for the issue, against the deposit of all or any part of the certificates and obligations constituting your company's 3¾% French franc loan of 1906 of the aggregate amount of Fcs. 250,000,000, of certificates of a new issue, payable in the United States in dollars.

Yours very truly,

——— ———.

L.

EXHIBIT No. 2369

561

THE PENNSYLVANIA RAILROAD COMPANY,
GENERAL OFFICE,
Broad Street Station, Philadelphia, September 23rd, 1915.

Messrs. KUHN, LOEB & Co.,
William & Pine Streets, New York, N. Y.

GENTLEMEN: The question that I wish to ask is: Do you think that we should have a sufficient number of copies of the new agreement between the Pennsylvania Company, Girard Trust Company, and ourself, to supply the demands that naturally will be made for them, not only by those who invest in the certificates, but for the statistical departments of most of the bankers of the country? If we do attempt to supply them, we think it would require about five hundred copies. Ordinarily I would not ask the question but simply have this many copies printed, but the circumstances surrounding this case are unusual: The original French franc loan agreement of 1906, you know, was carefully filed away in our vaults and never circulated. You are fully aware of the reason for doing this, and the question in my mind is, does not the same reason exist now, seeing that quite a proportion of the French certificates are likely to continue in circulation in France, and will not the distribution of copies of the new agreement call attention to the very situation that the French banks desire to avoid the publicity of, and will you be able longer to withhold giving to bona fide holders of new certificates and practically through them to the public, a list of the securities that are held by the trustee as collateral for the French franc loan?

Probably this is a question that we should ask Mr. Cromwell his views upon as he was the one that originally made the request that we should not circulate copies of the agreement of 1906.

Very truly yours,

(Signed) H. TATNALL,
Vice President.

EXHIBIT No. 2370

561

[File copy]

SEPTEMBER 24, 1915.

[Confidential]

HENRY TATNALL, Esq.,
Vice President, Pennsylvania Railroad Co.,
Philadelphia, Pa.

DEAR SIR: We beg to acknowledge receipt of your favor of the 23rd inst., and to thank you for consulting us in reference to the advisability of printing for distribution copies of the trust agreement covering the new issue of Pennsylvania Company 4½% notes.

Purchasers of securities in the United States have become so accustomed to be able to obtain the agreements under which the same have been issued that it might be misunderstood if this were refused in this case, and we should, therefore, recommend that the usual course be followed in the case of the new indenture, but we believe that it will not be necessary to furnish copies of the French trust indenture or to publish a list of the collateral thereof, although it may become advisable to state this collateral privately in a few cases.

Yours very truly,

——— ———.

EXHIBIT No. 2371

PENNSYLVANIA COMPANY,
GENERAL OFFICE,
Pennsylvania Station, Pittsburgh, Pa., June 2, 1915.

A. M. ANDERSON, Esq.,
c/o J. P. Morgan & Company,
23 Wall Street, New York City.

MY DEAR MR. ANDERSON: I have your favor of 1st instant and have no doubt the trust agreement referred to will come in this afternoon or tomorrow.

Replying to your request to know the securities held as collateral for the *Pennsylvania Company French franc loan of 1906*, I beg to say they are as follows:

N. & W. Ry. Co. common stock, 294,660 shs. @ $100	$29, 466, 000
N. & W. Ry. Co. pref'd stock, 107,460 shs. @ $100	10, 746, 000
P. C. C. & St. L. Ry. Co. common stock, 40,000 shs. at $100	4, 000, 000
P. F. W. & C. Ry. Co. gtd. spl. stock, 53,200 shs. @ $100	5, 320, 000
United N. J. R. R. & Canal company stock, 12,500 shs. @ $100	1, 250, 000
N. Y., N. H. & H. R. R. Co. stock, 9,900 shs. @ $100	990, 000
P. Y. & A. Ry. Co. pref'd stock, 41,800 shs. @ $100	4, 180, 000
Total par value	55, 952, 000

Very truly yours,

T. H. B. McKnight,
Treasurer.

[Ex. 21.]

Exhibit No. 2372 564–2

J. P. Morgan & Co.,
Wall St. corner Broad, New York, January 17. 1916.

Messrs. Kuhn, Leob & Co. and National City Company,
New York, N. Y.

Dear Sirs: We beg to confirm our arrangement with you for the sale to you of bonds forming part of the Chicago, Milwaukee & St. Paul Railway Company 4% 15-year European loan of 1910, under the following conditions:

1. We agree to sell to you and you agree to purchase from us Fcs. 153,051,000 4% bonds of the above loan at a price of Fcs. 476.50 per Fcs. 500 princpial amount, plus accrued interest to the date of your payment therefor, such purchase price to be payable in dollars to us at the fixed rate of exchange of Fcs. 5.90 to the dollar. You are further to pay to us an amount which, allowing for interest thereon at the rate of 2½% per annum, will discharge interest at the rate of 2½% per annum payable on July 1, 1916, on $75 per Fcs. 500 principal amount from the date that you pay for same.

2. We further agree to sell to you and you agree to purchase from us at the price of Fcs. 483.50 flat per Fcs. 500 principal amount, any and all additional 4% bonds of said Chicago, Milwaukee & St. Paul Railway Company 4% 15-year loan of 1910 delivered to Messrs. Morgan, Harjes & Co. for sale by us to you, payment to be made by you to us in dollars at the fixed rate of exchange of Fcs. 5.90 per dollar. Messrs. Morgan, Harjes & Co. will cable us daily of the amounts of any bonds so delivered to them, which amounts we will communicate to you daily.

Your agreement to purchase such additional bonds is, however, to be subject to termination at any time upon three days' notice delivered by you to us at our office, in New York City, provided that you are to accept and pay for all bonds which may have been acquired for the purpose of re-sale to you until the expiration in France of the three-day period after receipt by us of such notice in New York. All bonds sold by us, under either of the foregoing paragraphs, are to be delivered to you against payment of the purchase price, the bonds actually in New York City to be delivered to you at our office, and the bonds already purchased and not yet in New York or not yet purchased, to be covered by delivery to you of our certificate, in the form hereto attached, marked "Exhibit A." It is agreed that title to such bonds shall pass upon delivery of such certificates, and that neither Messrs. Morgan, Harjes & Co. nor ourselves shall be under any liability or obligation in case of the loss of said bonds in transportation.

3. Payment for the Fcs. 153,051,000 bonds is to be made at our office in New York, on January 24, 1916. For additional purchases payment is to be made to us on the next business day following advices to you that the bonds have been deposited with Messrs. Morgan, Harjes & Co., but not before January 25, 1916. At the time of such payments for additional purchases, we agree to deliver to you a certificate evidencing the deposit with Messrs. Morgan, Harjes & Co., the form of such certificate being in the form hereto annexed, marked "Exhibit A." All bonds are to be delivered when received by us in New York free of expense to you.

Yours very truly,

J. P. Morgan & Co.

AMA-DT

564–2
J. P. M. & Co.

[Carbon copy]

EXHIBIT A

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY COMPANY—CERTIFICATE OF DEPOSIT OF 4% 15-YEAR BONDS EUROPEAN LOAN OF 1910

This is to certify that ——— francs (Fcs. ———) of the 4% 15-year European loan of 1910 of the Chicago, Milwaukee & St. Paul Railway Company issued under the indenture dated June 1, 1910, between the said railway company and the United States Mortgage & Trust Company and Wm. Nelson Cromwell, as Trustee, have been deposited with Messrs. Morgan, Harjes & Co., Paris, as agents for and for delivery to Messrs. J. P. Morgan & Co., and, when received by Messrs. J. P. Morgan & Co., will be delivered, at their office, as promptly as possible to United States Mortgage and Trust Company, as trustee under the indenture, dated December 1, 1915, between said railway company and said trust company.

Dated, New York, ———.

For value received we hereby sell, assign, and transfer all our right, title, and interest in the above mentioned ——— francs (Fcs. ———) bonds to United States Mortgage and Trust Company, as trustee under said indenture, dated December 1, 1915.

Dated, New York, ———.

564

EXHIBIT No. 2373

OCTOBER 29TH, 1915.

[Confidential]

MY DEAR ROCKEFELLER: I enclose herewith a confidential memorandum outlining the proposed French transaction, which we have drafted in accordance with your request received through Mr. McRoberts. Of course, the figures are somewhat tentative, but we believe that something substantially on these lines could be accomplished, if advantage is taken of the present favorable opportunity. It is impossible to tell exactly in advance just on what terms the French bonds could be purchased and just how the dollar bonds can be sold, and it would therefore be necessary to let us have some leeway in dealing with the situation. As stated in the memorandum, the bankers take all the risk, and the company is held absolutely harmless against any loss or expense.

I would also call to your attention that while the company carries on its books the French debt at $96.3533 per Fc. 500 bond, it would doubtless cost the company more than this to re-pay them after the war is over.

Yours faithfully,

——— ———.

PERCY A. ROCKEFELLER, Esq.,
26 Broadway, City.

S.

EXHIBIT No. 2374

OCTOBER 29, 1915.

[Confidential memorandum]

It is proposed that the Chicago, Milwaukee & St. Paul Railway Company make a transaction in reference to its French loan bonds in the same manner in which the Pennsylvania Railroad Company recently consummated a transaction covering its French loan.

This proposition entails no risk of any kind to the St. Paul, but will enable it to make a large saving in taxes and further share in the profits, as hereafter stated. All expenses of the company, including any taxes on new bonds, are to be paid by the bankers and charged against the profits. The only action necessary on the part of the company is to stamp the French bonds as payable in dollars only at the rate of exchange at which the bonds are now carried on the books of the St. Paul ($96.3533 per Fc. 500 bond), and, as these bonds cannot be sold readily here in uneven denominations of small size, to issue new bonds in $1,000 denominations, secured by the pledge of a like face amount of the French bonds acquired, stamped payable in dollars, as above stated.

The consent of the company would be dependent upon the French Finance Minister releasing the French bonds acquired from French taxes and of the French banks releasing the company from remitting to France the interest and principal of bonds acquired, which in the case of the Pennsylvania was readily obtained. The consent of the company would be given subject to its obtaining consents, if necessary, from commission and the company would be under no obligation in case such consents were not given.

In the first instance, the company would save the share of French taxes on bonds acquired, now payable by it, being 75% of such taxes. This saving of taxes amounts to about 3/10 of 1% per annum, the present value of which, on a 3% basis, is about 2½%.

The bankers take the entire risk of purchasing the bonds and of liquidating the transaction and hold the railway company harmless against any loss or expense. It is suggested, in consideration of this, that out of any net profit realized in the transaction, there be set aside as compensation for the bankers an amount equal to the taxes saved by the company, say 2½%, and that the balance be equally divided between the company and the bankers.

While the profit, partly to the company, and entirely to the bankers, would be dependent upon the price at which the old French bonds could be acquired and the price at which the new bonds could be syndicated, a fair estimate is as follows:

Present value of tax saving, 2.50%.

Profit between purchase price and syndicate price, less expenses, 5.50%.

of which the company would be entitled to the tax saving and 1.50% in cash.

As a minimum of about $26,500,000 bonds will be acquired, these being already pledged for the Morgan loan [to de Rothschild Frères] in New York, the minimum profit on the above basis to the company would be $662,500 tax saving and $397,500 cash profit, or a total profit of $1,060,000. To the extent that additional bonds could be acquired, an additional profit would be made.

As stated above, it is not possible to determine exactly at what price the French bonds can be acquired or the dollar bonds sold, but assuming, as an example, that the French bonds could be acquired at approximate cost to the French Government (Fcs. 476 per Fcs. 500 bond) and paid for at approximately the present rate of exchange, and the dollar bonds syndicated here, on say a 5¼% basis, the figures would be as follows: Fcs. 500 bond ($95.3533) at 476 at 5.90, $80.68; 2% interest for 8 months on $75 to cover interest loss on Morgan loan, $1; or $81.68 per bond of $95.3533 face value or 84.78% per $1,000 bond.

A bond having a maturity of June 1925, if sold on a 5¼% basis would realize 90.68% per $1,000 bond, leaving a gross profit against the above cost of $5.90% from which expenses would have to be deducted.

NOTE.—Pencil notation enclosed in brackets.

EXHIBIT No. 2375

[Official]

52–54 WILLIAM STREET—55 WALL STREET,
New York, December 13, 1915.

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY COMPANY,
42 Broadway, New York City.

DEAR SIRS: In order to enable your company to take advantage of the unusual conditions now prevailing in the exchange situation between the United States and France, we propose that it arrange for the issue, against the deposit of all or any part of its bonds constituting the 4% fifteen-year European loan of 1910, to the aggregate amount of Fcs. 250,000,000 (hereinafter referred to as the old bonds), of bonds of a new issue, payable in the United States in dollars, and in respect thereof that it agree with us as follows:

I. Your company is to take the necessary corporate action authorizing the creation and issue from time to time, as hereinafter stated, of a new issue of bonds (hereinafter referred to as the new bonds) payable only in New York and only in United States gold coins and in denomination of $1,000 each, and the text of which shall be in the English language. The new bonds are to be limited to the aggregate amount of $48,176,654.66 at any time outstanding, are to be dated December 1, 1915, mature June 1st, 1925, redeemable at the election of the company on sixty days' notice, to be given as provided in the trust indenture under which said bonds are to be issued and secured, at par and accrued interest, on June 1st, 1922, or on any interest payment date thereafter, and are to bear interest at the rate of 4% per annum from their date, payable semiannually on June 1st and December 1st in each year. The new bonds are to be issued under a trust debenture to the United States Mortgage and Trust Company as trustee and are to be secured by the deposit with the trustee of an equal face amount of the outstanding old bonds (Fcs. 500 being figured at $96.3533).

II. The trust indenture securing the same, are to be substantially in the form of the drafts attached hereto, and the new bonds are to be substantially in the form set forth in the said draft of said trust indenture.

III. Every old bond acquired and deposited under the trust indenture shall be so stamped by your company as to impose on it the obligation to pay the principal and interest thereof in gold coin of the United States of America in New York City, $96.3533, to be treated as the equivalent of the face value of each Fcs. 500 of old bonds, and also, if required by us, said old bonds shall be further endorsed with the statement that they have been withdrawn from circulation in France. They may also, at the option of your company, be endorsed to the effect that they are not negotiable but held only as security for the new bonds.

IV. Your company from time to time is to issue and deliver to us or upon our order, new bonds, dollar for dollar, at the rate of $96.3533 for Fcs. 500 above stated, in exchange for old bonds delivered by us for deposit under the new trust agreement, and will issue such new bonds only upon our request. Your company is to retain the full amount derived from the saving of the French taxes as provided for hereinafter in clause V, subdivision (a). Any profit realized by us in the excahnge of old bonds for new bonds, or in the acquisition of old bonds and the sale of the new bonds issued in exchange therefor, is to be equally divided between your company and ourselves, but your company shall not be liable for or participate in any losses we may incur in the transaction. The price to be paid by us from time to time for old bonds acquired for exchange for new bonds shall not be more than $85 per bond of fcs. 500 and the accrued interest thereon, unless with the approval in writing of the president or a vice president of your company.

V. Such issue and delivery of the new bonds shall be further subject to the following conditions:

(a) Prior to the issuance of any of the new bonds, your company is to be furnished with a letter or a certified copy of a letter from the French Minister of Finance (or assurances satisfactory to it that such a letter has been delivered in Paris), stating in substance that the bonds of your company's four percent fifteen-year European loan of 1910 which have been or shall hereafter be bought and sent to the United States and stamped to the effect that the principal and interest thereof shall thereafter be payable only in dollars in the United States, will, from the day of deposit thereof in France for shipment to the United States, cease to be subject to the French stamp, transmission, and revenue taxes on securities, and also with an agreement, or a contract from parties satisfactory to it to procure an agreement, from the European bankers who are parties to the agreement of May 26, 1910, between your company, our firm, and said European bankers, irrevocably releasing your company from all obligations assumed by it under said agreement dated May 26, 1910, to remit funds to France for the payment of the principal and interest of any of the old bonds which may be stamped as payable in United States dollars only and from the payment of any commission in respect of such funds, or the distribution thereof.

(b) All expenses of your company in connection with the issuance of the new bonds, as well as our expenses in connection with the acquisition of the old bonds, their exchange for new bonds and the sale of the new bonds, shall be a charge upon the profits hereinabove in paragraph IV referred to.

(c) Your company will promptly apply for the approval of the Public Service Commissions of Illinois and Wisconsin for the issue of the new bonds, as herein provided, and unless and until such approval be granted, your company shall be under no obligation whatever by reason of anything contained herein.

(d) Your company may, at its election on July 1, 1916, or at any time thereafter, on sixty days' notice in writing to us, terminate the agreement with us as to the issue or exchange of further or additional new bonds and the division of profits in respect thereof.

Kindly advise us whether you desire to accept the proposition above set forth and we shall then endeavor to promptly proceed to perfect the arrangement with the French banks.

Yours very truly,

——— ———.

EXHIBIT No. 2376

564

[Official]

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.,
OFFICE OF THE VICE PRESIDENT,
Forty-two Broadway, New York, December 16, 1915.

Messrs. KUHN, LOEB & CO., and NATIONAL CITY BANK,
New York City.

DEAR SIRS: We acknowledge receipt of your proposition of the 13th inst. covering the issuance of new bonds of this company available in the United States against the deposit of the bonds constituting its fifteen-year European loan of 1910, and we hereby accept your proposition subject to all the terms and conditions therein set forth.

Yours truly,

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.
By (Sgd.) H. R. WILLIAMS, *Vice President.*

EXHIBIT No. 2377

564

52–54 WILLIAM STREET—55 WALL STREET,
New York, December 16th, 1915.

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY COMPANY,
42 Broadway, New York City.

DEAR SIRS: Referring to our letter to you, dated December 13th, 1915, in reference to the exchange of bonds of your company's 4% 15-year European loan of 1910 for dollar bonds, it is understood that we may sell the new bonds or any part of them to a syndicate or otherwise, or may procure the sale of the same to be underwritten, and in case we do so, the profit to be divided between your company and ourselves shall be based upon the price at which the bonds shall be sold by us to such syndicate or otherwise or underwritten, and we may participate in any such purchase by a syndicate, or otherwise, or underwriting without accounting to your company for any profit resulting from such participation.

Kindly confirm that this is in accordance with your understanding, and believe us,

Very truly yours,

——— ———.

S.

EXHIBIT No. 2378

564

[Official]

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.,
OFFICE OF THE VICE PRESIDENT,
Forty-two Broadway, New York, December 16, 1915.

Messrs. KUHN, LOEB & CO., and NATIONAL CITY BANK,
New York, N. Y.

DEAR SIRS: I beg to acknowledge receipt of your letter of the 16th with reference to syndicate matters, and advise that the same is in accordance with our understanding.

Yours truly,

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.,
By (Sgd.) H. R. WILLIAMS, *Vice President.*

Exhibit No. 2379

564

[Official]

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.,
OFFICE OF THE VICE PRESIDENT,
Forty-two Broadway, New York, January 19, 1916.

Messrs. KUHN, LOEB & CO. and NATIONAL CITY BANK.

DEAR SIRS: Referring to your letter of December 13, 1915, and to our reply thereto, dated December 16, 1915, covering the issuance of new bonds of this company payable in the United States against the deposit of the bonds constituting its 15-year European loan of 1910, we beg to advise you that we have now received assurance satisfactory to us that a letter from the French Minister of Finance has been delivered in Paris, in substantially the form referred to in subparagraph (a) of paragraph V of your said letter, and that we have also received an agreement satisfactory to us from the European bankers who are parties to the agreement of May 28, 1910, between this company, yourselves and said European bankers, as provided in said subparagraph (a) of paragraph V. We are, therefore, now prepared to proceed with the issuance of the new bonds on the terms set forth in your letter.

Yours truly,

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.,
By (Sgd) H. R. WILLIAMS, *Vice President.*

Exhibit No. 2380

564-3

[Confidential]

JANUARY 19, 1916.

Messrs. CLARK, DODGE & CO.,
51 Wall Street, City.

DEAR SIRS: We beg to advise you that jointly with the National City Company, we have agreed to purchase Fcs. 153,051,000 of the four percent 15-year European loan of 1910 of the Chicago, Milwaukee & St. Paul Railway Company, and any additional amounts of said loan acquired until the expiration of three days' notice to be given by us.

We have arranged with the railway company that these bonds be stamped as payable only in United States gold coin (Fcs. 500 being figured at $96.3533), the acquired bonds then to be deposited as security for the issuance by the company of an equal face amount of its four percent gold loan due June 1, 1925, to be issued in denomination of $1,000 each, and have also agreed that any profit realized in the transaction is to be divided equally with the company.

We have reserved for you on behalf of the National City Company and ourselves, an interest of Fcs. 5,000,000 bonds in the firm purchase, with a proportionate amount in any additional purchases, subject to a commission of one percent on the face value of bonds purchased, for the services of the National City Company and ourselves.

The new bonds are to be held together for sale under the management of the National City Company and ourselves, and all expenses in connection with the purchase of French franc bonds, their stamping as payable in dollars only and the issuing of the new bonds, are to be a charge on the business.

Kindly advise us whether you desire to accept the participation reserved for you, and believe us,

Yours very truly,

——— ———.

CWB-L.

EXHIBIT NO. 2381

KUHN-LOEB.

Pennsylvania dollar bonds, 4½%—due June 15, 1921—syndicate

Name	Application	Allotment	Withdrawn	Sold @ 98¾ to brokers—profit 1% left for sale
Central Trust Company	1,000,000	1,000,000		1,000,000
Jacob H. Schiff	1,000,000	1,000,000	1,000,000	
Paul M. Warburg	250,000	250,000	[1] 250,000	
John D. Rockefeller	1,000,000	1,000,000	1,000,000	
William Rockefeller		1,000,000		1,000,000
Union Pacific R. R. Co	5,000,000	4,000,000	4,000,000	
National City Bank	10,000,000	6,000,000	6,000,000	
Equitable Trust Co	1,000,000	1,000,000	1,000,000	
U. S. Mtge. & Trust Co	1,000,000	1,000,000	1,000,000	
National Bank of Commerce	2,000,000	1,500,000	1,500,000	
Girard Trust Company	1,000,000	750,000	250,000	500,000
Commercial Trust Co	250,000	250,000		250,000
Union Trust Co. & Mellon Bank of Pittsburgh	5,000,000	3,500,000	2,000,000	1,500,000
Delaware & Hudson R. R. Co	125,000	125,000	125,000	
Western Union Tel. Co	2,000,000	1,500,000	1,500,000	
Chase National Bank	1,000,000	1,000,000		1,000,000
Kuhn Loeb & Company		807,000		807,000
Franklin Nat. Bank (Phila.)		150,000		150,000
Cassatt & Co. (Phila.)		200,000		200,000
Fidelity Trust Co. (Phila.)		250,000	250,000	
Total		26,282,000	19,875,000	5,600,000

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[1] Treated as a sale.

EXHIBIT NO. 2382

Memorandum of amounts placed to the credit of the French Republic commercial agency account covering proceeds of loans against and sales of Pennsylvania Railroad Company 3¾% French francs bonds of 1906, from June 19, 1915, to April 30, 1916, inc.

Date	Item			
1915 June 19	Proceeds loan against Fcs. 80,427,500 Penn. R. R. 3¾% bonds due 1929 @77.50			12,466,262.50
" 26	" " " " 19,322,500 " " " " " " @77.50			2,994,987.50
" 26	" " " " 33,713,000 " " " " " " @75.00			5,056,950.00
" 26	" " " " 7,987,000 " " " " " " @75.00			1,198,050.00
July 12	" " " " 287,500 " " " " " " @75.00			43,125.00
	Fcs. 141,737,500			21,759,375.00
Sept. 30	Proceeds sale Fcs. 141,737,500 Penn. R. R. 3¾% French francs loan 1906 @4.86	137,768,850.00		
	105 days' interest @3¾	1,550,253.90		
		139,319,103.90 @ 5.65	24,658,248.48	
	2% interest on $77.50 per certificate 21,969,312.50 from September 30, 1915, to Jan. 1, 1916, 111,061.08, 3% basis		110,231.16	
	2% interest on $77.50 per certificate 21,969,312.50 from January 1, 1916, to July 1, 1916, 219,673.13, on 3% basis		214,841.30	
	(See letter Oct. 1, 1915)		24,983,320.94	
	Less amount of loans June 19	12,466,262.50		
	" " " " 26	9,249,987.50		
	" " " July 12	43,125.00		
		21,759,375.00		
	Int. 105 days @ 5% on 12,466,262.50	174,873.96		
	" 94 " " " " 9,249,987.50	120,763.72		
	" 78 " " " " 43,125.00	467.19		
	Premiums paid participants for accepting reimbursement of loan before maturity (rebated upon a 3½% basis)	238,403.85		
	(Cable 15353)	22,293,883.72	22,293,883.72	2,689,437.22

Memorandum of amounts placed to the credit of the French Republic commercial agency account covering proceeds of loans against and sales of Pennsylvania Railroad Company 3¾% French francs bonds of 1906, from June 19, 1915, to April 30, 1916, inc.—Continued.

1915				
Sept. 27	Proceeds Fcs. 12,949,000 Penna. Co. 3¾% French francs bonds @ 4.85 plus Fcs. 5 comn.................................Fcs..	$12,690,020.00		
	102 days' interest @ 3¾, Fcs. 12,949,000........	137,583.13		
	Fcs..	12,827,603.13	@ 5.65	$2,270,372.23
" 29	1,333,000 Fcs. Penn. R. R. Co. 3¾% French francs loan of 1906 @ 4.85 plus Fcs. 5 comn.................................Fcs..	1,306,340.00		
	104 days' interest @ 3¾ on Fcs. 1,333,000....	14,440.83		
		1,320,780.83	@ 5.65	233,706.52
Oct. 18	97,500 Fcs. Penn. R. R. 3¾% French francs loan 1906 @ 4.85 plus Fcs. 5 comn....Fcs..	95,550.00		
	123 days' interest @ 3¾ on Fcs. 97,500.......	1,249.22		
		96,799.22	@ 5.65	17,132.60
Oct. 21	81,500 Fcs. Penn. R. R. Co. 3¾% @ Fcs. 4.85 plus Fcs. 5 comn..........................Fcs..	79,870.00		
	126 days' interest @ 3¾ on Fcs. 81,500.......	1,069.69		
		80,939.69	@ 5.65	14,325.61
Oct. 26	21,500 Fes. Penn. R. R. Co. 3¾% @ 4.85 plus Fcs. 5 comn..........................Fcs..	21,070.00		
	131 days' interest @ 3¾ on Fcs. 21,500.......	293.38		
		21,363.38	@ 5.65	3,781.14
1916				
Jan. 4	3,793,500 Penn. R. R. Co. 3¾% French francs loan 1906 @ 4.85 plus Fcs. 5 comn.....Fcs..	3,717,630.00		
	19 days' interest @ 3¾ on Fcs. 3,793,500......	7,507.97		
		3,725,137.97	@ 5.65	659,316.45
Feb. 1	4,636,000 Fcs. Penn. R. R. Co. 3¾% French francs loan 1906:			
	1,022,500			
	5,658,500 @ 4.85 plus Fcs. 5 comn.......Fcs..	5,545,330.00		
	46 days Interest @ 3¾ on Fcs. 5,658,500......	27,113.65		
		5,572,443.65	@ 5.65	986,273.21
Mar. 15	5,079,000 Fcs. Penn. R. R. Co. 3¾% French francs loan 1906 @ 4.85 plus Fcs. 5 comn Fcs..	4,977,420.00		
	90 days' interest @ 3¾ on 5,079,000...........	47,615.63		
		5,025,035.63	@ 5.65	889,386.84
				29,523,166.82
Mar. 23	2,600 bonds Penna. 3¾% French francs loan of 1906 @ 4.85 plus Fcs. 5 comn......Fcs..	1,274,000.00		
	Interest @ 3¾% on Fcs. 1,300,000, 98 days...	13,270.82		
	Fcs..	1,287,270.82	@ 5.65	227,835.54
Apr. 28	511 bonds Penn. 3¾% French francs loan 1906 Fcs. 4.85 plus Fcs. 5 comn............	250,390.00		
	Interest on Fcs. 2,555,000, 133 days...........	3,539.75		44,943.32
	Fcs..	253,929.75	@ 5.65	

Memorandum of amounts placed to the credit of the French Republic Commercial Agency account covering proceeds of loans against and sales of Chicago, Milwaukee & St. Paul Ry. Co. 4% French francs bonds of 1910, from June 19, 1915 to Apr. 30, 1916, inclusive

1915						
June	19	Proceeds loan against Fcs. 72,462,000 Chic., Milw. & St. Paul 4% Bonds, due 1925 @ $75.00				$10,869,300.00
	26	" " " " 24,463,000 " " " " " " " " @ $75.00				3,669,450.00
	26	" " " " 34,090,000 " " " " " " " " @ 72.50				4,943,050.00
	26	" " " " 6,238,500 " " " " " " " " @ 72.50				904,582.50
July	12	" " " " 310,500 " " " " " " " " @ 72.50				45,022.50
Sept.	23	" " " " 15,000,000 " " " " " " " " @ 72.50				2,175,000.00
Oct.	12	" " " " 487,000 " " " " " " " " @ 72.50				70,615.00
		153,051,000				22,677,020.00
Jan.	24	Proceeds Fcs. 153,051,000 Chic., Milw. & St. Paul 4% 15-yr. European loan 1910 @ Fcs. 4.76	145,704,552.00			
		Interest 53 days @ 4% on Fcs. 153,051,000	901,300.33	146,605,852.33 @5.90	24,848,449.54	
		2½% Interest on $75.00 per certificate 22,957,650 from Jan. 24 to July 1, 1916, 250,302.15 on 2½% basis			247,602.59	
					25,096,052.13	
		Less amount of loan		22,677,020.00		
		23 days' interest @ 5%		72,440.48		
		Amount paid participants for accepting reimbursement of loan before maturity rebated upon 9 2½% basis		243,794.63	22,993,255.11	2,102,797.02
1916						
Jan.	4	Proceeds of coupons		Fcs. 3,061,020.00 @ 5.85		523,251.29
Mar.	23	Fcs. 2,369,000 Chicago Milwaukee & St. Paul 4% 15-year European Loan 1910 @ Fcs. 4.84		Fcs. 2,293,192.00 @ 5.90	388,676.61	
Apr.	28	Fcs. 497,000 Chicago Milwaukee & St. Paul Ry. 4% European Loan 1910 @ Fcs. 4.84=Fcs. 481,096 @ 5.90			81,541.70	

Memorandum of charges to French Republic Commercial Agency account, in reference to loans against and sales of Pennsylvania Railroad Company 3¾% and Chicago, Milwaukee & St. Paul Ry. Co. 4% bonds, from June 19, 1915 to April 30, 1916, inclusive

1915				
June	21	1¼% commission on $23,335,562.50	$291,694.53	
"	26	1¼% commission on 18,767,070.00	234,588.38	
July	12	1¼% commission on 88,147.50	1,101.83	
		Total	527,384.74	
1915				
Dec.	31	Interest on loans	565,819.90	
		As follows:		
		June 19, 192 days, 10,869,300.00	289,848.00	
		" 26, 185 " 9,517,082.50	244,536.15	
		July 12, 169 " 45,022.50	1,056.78	
		Sept. 23, 98 " 2,175,000.00	29,604.17	
		Oct. 12, 79 " 70,615.00	774.80	
			565,819.90	
1916				
Feb.	17	Refund from French Republic account of French tax of Fcs. 0.185 for each Fcs. 10 on Chicago, Milwaukee & St. Paul Ry. Co. 4% French loan coupons amounting to Fcs. 3,031,020. Fcs. 56,628.37 @ 5.85		9,680.15
		Cost of cables		653.65

Memorandum of amounts placed to the credit of the French Republic Commercial Agency a/c—proceeds of C., M. & St. Paul Ry. Co. 4% 15-year European Loan of 1910 bonds

1916	Bonds, 500 Fcs. each		Francs	Francs	Exchange @	
May 2	799		484	386,716.00	5.90	$65,545.08
26	561		487½	273,487.50	5.90	46,353.81
June 1	285		487½	138,937.50	5.90	23,548.73
9	5		483½	2,417.50		
		And Int. on 2,500 Fcs. for 83 days		23.05	5.90	413.66
				2,440.55		
16	2,270		480	1,329,600.00	5.90	225,355.93
22	1,000		480	480,000.00	5.90	81,355.93
July 6	3,225		480	1,548,000.00	5.90	262,372.88
21	2,589		482½	1,249,192.50	5.90	211,727.54
Aug. 3	1,754		482½	846,305.00	5.90	143,441.53
25	1,217		482½	587,202.50	5.90	99,525.85
Nov. 1	2,211		504½	1,115,449.50	5.90	189,059.24
8	2,277		504½	1,148,746.50	5.90	194,702.80
23	7,841		504½	3,955,784.50	5.90	670,471.95
Dec. 22	19,730		494½	9,756,485.00	5.90	1,653,641.53

E. & O. E.—New York, Sept. 24, 1917.—J. P. Morgan & Co.

Memorandum of amounts placed to the credit of the French Republic Commercial Agency a/c—proceeds of Pennsylvania Co. 3¾% French Fc. loan of 1906 bonds

1916		Francs	Francs	Exch. @	
May 2	74 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com	36,260.00			
	Int. 3¾% Fcs. on 37,000 Fcs., 137 days	528.02	36,788.02	5.90	$6,235.25
26	1,738 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com	851,620.00			
	Int. 3¾% Fcs. on 86,900 Fcs., 161 days	14,573.85	866,193.85	5.90	146,812.52
June 1	394 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com	193,060.00			
	Int. 3¾% Fcs. on 197,000 Fcs., 166 days	3,406.44	196,466.44	5.90	33,299.40
19	1,737 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com	851,130.00			
	Int. 3¾% Fcs. on 865,500 Fcs., 6 mos. 4 days	16,646.25	867,776.25	5.90	147,080.72
July 6	2,999 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com	1,469,510.00			
	Int. 3¾% Fcs. on 1,499,500 Fcs., 21 days	3,280.16	1,472,790.16	5.90	249,625.45
21	3,080 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com	1,509,200.00			
	Int. 3¾% Fcs. on 1,540,000 Fcs., 36 days	5,775.00	1.514,975.00	5.90	256,775.42
Aug. 3	813 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com	398,370.00			
	Int. 3¾% Fcs. on 406,500 Fcs., 48 days	2,032.50	400,402.50	5.90	67,864.83
8	22 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com.	10,780.00			
	Int. 3¾% Fcs. on 11,000 Fcs., 53 days	60.72	10,840.72	5.90	1,837.40
14	100 bonds 500 Fcs. each @ 485 Fcs. plus 5 Fcs. com	49,000.00			
	Int. 3¾% Fcs. on 50,000 Fcs., 59 days	307.29	49,307.29	5.90	8,357.17
25	912 bonds 500 Fcs. each @ 485 Fcs., plus 5 Fcs. com	446,880.00			
	Int. 3¾% Fcs. on 456,000 Fcs., 70 days	3,325.00	450,205.00	5.90	76,305.93
Nov. 1	676 bonds 500 Fcs. each @ 500 Fcs. plus 5 Fcs. com	341,380.00			
	Int. 3¾% Fcs. on 338,000 Fcs., 136 days	4,788.32	346,168.32	5.90	58,672.60
8	2,048 bonds 500 Fcs. each @ 500 Fcs. plus 5 Fcs. com	1,034,240.00			
	Int. 3¾% Fcs. on 1,024,000 Fcs., 143 days	15,253.34	1,049,493.34	5.90	177,880.23
23	6,392 bonds 500 Fcs. each @ 500 Fcs. plus 5 Fcs. com	3,227,960.00			
	Int. 3¾% Fcs. on 3,196,000 Fcs., 158 days	52,600.83	3,280,560.83	5.90	556,027.26
Dec. 22	15,430 bonds 500 Fcs. each @ 500 Fcs. plus 5 Fcs. com	7,792,150.00			
	Int. 3¾% Fcs. on 7,715,000 Fcs., 7 days	5,625.52	7,797,775.52	5.90	1,321,656.87

E. & O. E.—New York, Sept. 24, 1917.—J. P. Morgan & Co.

Memorandum of amounts placed to the credit of the French Republic commercial agency account—Proceeds of Pennsylvania Co. 3¾% French franc loan of 1906 bonds

1917	Bonds @ fcs. 500 ea.		@ francs	Francs	Francs	Exchange @	
Jan. 3	1,614		500+5 comn.	815,070.00			
		Interest @ 3¾% on fcs. 807,000, 18 days		1,513.13	816,583.13	5.90	$138,403.92
Feb. 8	5		500+5 comn.	2,525.00			
		Interest @ 3¾% on fcs. 2,500, 53 days		13.80	2,538.80	5.90	430.30
Apr. 10	2,408		505	1,216,040.00			
		Interest @ 3¾% on fcs. 1,204,000, 115 days		14,422.91	1,230,462.91	5.90	208,553.04
June 11	1,386		490+5 comn.	686,070.00			
		Interest @ 3¾% on fcs. 693,000, 176 days		12,705.00	698,775.00	5.70	122,592.10
July 20	460		490+5 comn.	227,700.00			
		Interest @ 3¾% on fcs. 230,000, 35 days		838.54	228,538.54	5.70	40,094.48
Aug. 2	261		490+5 comn.	129,195.00			
		Interest @ 3¾% on fcs. 130,500, 47 days		638.91	129,833.91	5.70	22,777.88
Aug. 22	76		490+5 comn.	37,620.00			
		Interest @ 3¾% on fcs. 38,000, 66 days		261.25	37,881.25	5.70	6,645.83
Sept. 28	167		490+5 comn.	82,665.00			
		Interest @ 3¾% on fcs. 83,500, 103 days		895.89	83,560.89	5.70	14,659.80
Oct. 11	273		490	133,770.00			
		Interest @ 3¾% on fcs. 136,500, 116 days		1,649.37	135,419.37	5.65	23,968.02
11	72		490	35,280.00			
		Interest @ 3¾% on fcs. 36,000, 116 days		435.00	35,715.00	5.90	6,053.40
24	111		495	54,945.00			
		Interest @ 3¾% on fcs. 55,500, 129 days		745.78	55,690.78	5.70	9,770.31
Nov. 8	145		495	71,775.00			
		Interest @ 3¾% on fcs. 72,500, 143 days		1,079.95	72,854.95	5.70	12,781.57
Dec. 6	160		495	79,200.00			
		Interest @ 3¾% on fcs. 80,000, 171 days		1,425.00	80,625.00	5.70	14,144.74
							620,875.39

MEMO.—See memo. of credits for Chic. Mil. & St. P. Ry. Co. bonds in re cable charges.—E. & O. E.—New York, Nov. 18, 1918.—J. P. Morgan & Co.

Memorandum of amounts placed to the credit of the French Republic commercial agency account—Proceeds of Chicago, Milwaukee & St. Paul Railway Co. 4 percent 15-year European loan of 1910 bonds

1917	Bonds @ fcs. 500 ea.		@ francs	Francs	Francs	Exchange @ 5.90
Jan. 3	1,579		494½	780,815.50		$132,341.61
Feb. 8	318		494½	157,251.00		26,652.71
Apr. 10	2,131		494½	1,053,779.50		
		& interest @ 4% on fcs. 1,065,500, 129 days		15,272.17		
					1,069,051.67	181,195.20
June 11	1,102		480	528,960.00		
		& interest @ 4% on fcs. 551,000, 10 days		612.22		
					529,572.22	89,758.00
Oct. 8	792		484	383,328.00		
	241		487½	117,487.50		
	25		498½	12,462.50		
					513,278.00	86,996.27
		Total				516,943.79

Memo.—There was charged to the French Republic Commercial Agency account, under date of December 31st, 1917, for cables dispatched by Messrs. J. P. Morgan & Co. to December 21st, 1917, in reference to the above, and Pennsylvania Co. 3¾% French franc loan of 1906 bonds, $728.80.—E. & O. E.—New York, November 18th, 1918.—J. P. Morgan & Co.

Exhibit No. 2383

Kuhn, Loeb profit in Pennsylvania bonds

(Transcribed by R. W. 5/24/35)

500,000.00
26.95
3.90
150,000.00
20.87
163.14
158.85
43.06
1.17
5.29
48.30

146.01
342.62
827.08
150,000.00
86.51
.30
132.02
75.59
25.00
14.16
4.12

9.03
18.68
6.05
7.89
8.70
35.70
50,000.00
8,156.34

860,367.33

Pennsylvania Company profit on Pennsylvania bonds

(Transcribed by R. W. 5/24/35)

500,000.00
150,000.00
150,000.00
50,000.00
1,205.00
8,156.34

859,361.34

Kuhn, Loeb profits on Chicago, Milwaukee & St. Paul bonds (Distribution a/c)

(Transcribed by R. W. 5/24/35)

700,000.00
147,469.69
2,282.61
35,000.00
7,322.37
15,444.95

45,000.00
2,471.46
10,000.00
2,483.47

967,474.55

967,474.55
+3,174.93

970,649.48

Kuhn Loeb Commission of 1/16% (Bond a/c) Chicago Milwaukee & St. Paul bonds

(Transcribed by R.W. 5/24/35)

597. 39
52. 42
42. 18
15. 09
170. 81
137. 13

92. 90
64. 46
240. 57
420. 29
1, 057. 57
84. 64

22. 55
116. 83
60. 10

3, 174. 93

S. M. & St. P.'S SHARE

1, 575, 000. 00
9, 272. 30
100, 000. 00
112, 000. 00
23, 000. 00
3, 485. 67

1, 822, 757. 97

Profits to National City Bank and Clark, Dodge & Co. in Chicago, Milwaukee & St. Paul bonds (Distribution acct.)

(Transcribed by R. W. 5/24/35)

700, 000. 00
40, 000. 00
5, 000. 00
35, 000. 00

45, 000. 00
6, 300. 00
2, 000. 00
10, 000. 00

227. 65
2, 483. 46

846, 011. 11

C. D.

40, 000. 00
5, 000. 00
6, 300. 00
2, 000. 00
227. 65

53, 527. 65

N. C.

700, 000. 00
35, 000. 00
45, 000. 00
10, 000. 00
2, 483. 46

792, 483. 46

Pennsylvania Co. 4½% notes due 1921—Loan Cfts.

Date	Quantity			Memo.	Price		Debit	Credit	Balance	
	Bought	Sold	Balance		Bo't	Sold			Debit	Credit
1915										
Sept. 27				2,401,114.67			2,270,372.23			
29				247,176.30			233,766.52		2,504,138.75	
30	26,282.18322½			2,648,290.97			24,983,320.94			
30		26,282 M		26,484,741.95				25,969,901.25	1,517,558.44	
Oct. 4		2,401 M		2,474,741.95				2,397,698.63		880,140.19
6				Penn. Co. on a/c			500,000.00			380,140.19
6				K. L. Co. on a/c			500,000.00		119,859.81	
18	18,079.285			265,553.48			17,132.60		136,992.41	
21	15,112.43			280,665.91			14,325.61		151,318.02	
26	3,986.715			284,652.625			3,781.14		155,099.16	
Nov. 16		275 M		9,652.625				280,190.63		125,091.47
Dec. 8		9 M		652.625				9,284.63		134,376.10
1916										
Jany. 4	703,423.33½			704,075.96			659,316.45		524,940.35	
5		703 M		1,075.96				713,714.37		
5								270.00		189,044.02
Feby. 1	{3,202.84 {1,049,247.615	}		1,053,526.415			986,273.21		797,229.19	
3		100 M		953,526.415				102,350.00	694,879.19	
4		250 M		703,526.415				255,593.75	439,285.44	
7		700 M		3,526.415				715,925.00		276,639.56
Mar. 15	944,666.58			948,192.995			889,386.84		612,747.28	
17		347 M		601,192.995				357,063.00	255,684.28	
22		500 M		101,192.995				514,812.50		259,128.22
28		100 M						102,975.00		
23	241,792.98			242,985.975			227,835.54			134,267.68
Apl. 10		242 M		985.975				249,411.25		383,678.93
28	47,521.62						44,943.32			
28				1/16% Com'n on fes 511 M			26.95			338,708.66
May 2	6,881.80			48,507.595			6,235.25			
2				1/16% Com'n			3.90			332,469.51
16		55 M		{55,389.395 {389.395	}			56,794.38		389,263.89
19				Penn. R. R. Co. on acct			150,000.00			
19				K. L. Co.			150,000.00			89,263.89
26	161,629.31			162,018.705			146,812.52		57,548.63	
June 1	36,640.90			198,659.605			33,299.40			
1				1/16% Com. fes 197 M			20.87		90,868.90	
15				Coups. on 198 M				4,455.00	86,413.90	
17				Int. on 659.605				14.84	86,399.06	
19	161,536.315			360,195.92			147,080.72		233,479.78	

	27		155 M		205,195.92				156,395.00	77,084.78	
	28		109 M		96,195.92				109,994.63		32,909.85
	29		10M		86,195.92				10,092.50		43,002.35
	30		86M		195.92				86,806.25		129,808.60
July	6	279,765.315			279,961.235			249,625.45		119,816.85	
	8				1/16% Comn			158.85		119,975.70	
	17		50M		229,961.235				50,575.00	69,400.70	
	19		100M		129,961.235				101,175.00		31,774.30
	20		10M		119,961.235				10,118.75		41,893.05
	21	287,321.50						256,775.42			
	21		15M		392,282.735				15,180.00	199,702.37	
	26				1/16% Comn			163.14			
	26				June 15/16 coups on 1.736 @ 90.67 fcs, fcs 15,740.31 @ 590¾ coup on161,536 Bonds, June 19.				2,664.46	197,201.05	
	28		5M		387,282.735				5,064.38	192,136.67	
	31		5M		382,282.735				5,066.25	187,070.42	
Aug.	3	75,841.68			458,124.415			67,864.83		254,935.25	
	7				1/16% Comn			43.06		254,978.31	
	8	2,052.2964			460,176.7114			1,837.40		256,815.71	
	8				1/16% Comn			1.17		256,816.88	
	9		100M		3,601,767.114				101,300.00	155,516.88	
	10		60M		3,001,767.114				60,787.50	94,729,38	
	14	9,328.62	40M		269,505.3314			8,357.17	40,595.01	62,491.54	
	16		6M		1/16% Comn			5.29	6,090.75	56,406.08	
	18		1M		263,505.3314 262,505,3314				1,015.38	55,390.70	
	21		10M		252,505.3314				10,157.50	45,233.20	
	25	85,077.07702			337,582.40842			76,305.93		121,539.13	
	26				1/16% Comn			48.30		121,587.43	
Sept.	6		5M		332,582.395				5,088.75	116,498.68	
	7		75M		257,582.395				76,331.25	40,167.43	
	25		26M		231,582.395				26,552.50	13,614.93	
	26		1M		230,582.395				1,022.63	12,592.30	
Oct.	2		230M		582.395				235,232.50		222,640.20
Nov.	1	63,061.47			63,643.865			58,672.60			163,967.60
	6		5M		58,643.865				5,144.38		169,111.98
	8	191,050.15	58M		249,694.015			177,880.23	59,689.25		50,921.00
	9				¼% Comn			146.01			50,774.99
	14		191M		58,694.015				196,706.13		247,481.12
	23				1/16% Comn			342.62			
	23	596,285.40			654,979.415			556,027.26		308,888.76	
	28		250M		346,979.415				257,906.25	50,982.51	
	29		20 M		326,979.415				20,635.00	30,347.51	
Dec.	16				Int. on 979.415				22.04	30,325.47	
	19				Int. on 326 M				7,335.00	22,990.47	
	21				Cables			5.38		22,995.85	
	22	1,443,957.91						1,321,656.87			
	22				1/16% Comn			827.08			
	22		150 M		1,620,937.325				151,443.75	1,194,036.05	
	28				Penn. R. R. Co.			150,000.00			
	28				Kuhn Loeb Co.			150,000.00		1,494,036.05	

Pennsylvania Co. 4½% notes due 1921—Loan Cfts.—Continued

Date	Quantity			Memo.	Price		Debit	Credit	Balance	
	Bought	Sold	Balance		Bo't	Sold			Debit	Credit
1917 Jany 2		1,620 M		937.325				1,635,655.00		141,618.95
3	151,040.06			151,977.385			138,403.92			3,215.03
5				1/16% Comn			86.51			3,128.52
Feby 7				1/16% Comn			.30			3,128.22
8	467.906			152,445.291			430.30			2,697.92
9		151 M		1,445.291				153,278.00		155,975.92
17				Ins			5.67			155,970.25
21				Cables			3.74			155,966.51
April 10	225,343.5298			1,445.291			208,553.04		52,586.53	
11				226,788.8208 1/16% Comn			132.02		52,718.55	
12		225 M		1,788.8208				228,009.38		175,290.83
June 11	129,703.5432			131,492.364			122,592.10			52,698.73
14				1/16% Comn			75.59			52,623.14
16				Int. on 788.82 scrip				17.75		52,640.89
18				Int. on 1,000 bond				22.50		52,663.39
28				Cables			19.50			52,643.89
July 6		80 M						79,310.00		131,953.89
11		8 M		51,492.364 43,492.364				7,936.00		139,889.80
12		43 M		492.364				42,715.13		182,605.02
18				Int. 129 M Bds				2,902.50		185,507.52
20	43,185.858			43,678.222			40,094.48			
20				1/16% Comn Fcs 230 M = Fcs 143.75 @ 5.75			25.00			145,388.04
23				June int. $703.54				15.83		145,403.87
Aug. 2				1/16% Comn			14.16			145,389.71
2	24,503.2803			68,181.5023			22,777.88			122,611.83
21	7,135.0548			75,316.5571			6,645.83			115,966.00
23				1/16% Comn			4.12			115,961.88
Sept. 7		75 M		316.5571				74,362.50		190,324.38
28				1/16% Comn			9.03			
28	15,678.345		15,994.9021				14,659.80			175,655.55
Oct. 11	32,389.394						30,021.42			
11			48,384.2961	1/16% com'n			18.68			145,615.45
24	10,420.935		58,805.7311				9,770.31			135,845.14
26		15M	43,805.2311					14,833.13		150,678.27
Nov. 1				1/16% com'n			6.05			150,672.22
8				1/16% com'n			7.89			
8	13,612.94		57,418.1711				12,781.57			137,882.76

Dec. 5				1/16% com'n			8.70			137,874.06
6	15,021.17		72,439.3411				14,144.74			123,729.32
12		1M	71,439.3411					992.13		124,721.45
15				Int. 7.55 Bds.				1,237.50		125,958.95
17		10M	61,439.3411					9,552.50		135,511.45
24				Int on 15 M				337.50		135,848.95
27		39M	22,439.3411					37,244.13		173,093.08
28		2M	20,439.3411					1,920.75		175,013.83
1918										
Jan. 2				Int. on 1,434.33				32.38		175,046.21
9		1M	19,439.3411					968.00		176,014.21
10	61,882.63		81,321.9711				57,205.35			118,808.86
15				1/16% com'n			35.70			118,773.16
29		14M	67,321.9711					13,499.50		132,272.66
Feb. 1		2M	65,321.9711					1,939.00		134,211.66
5		25M	40,321.9711					24,250.00		158,461.66
7		3M						2,910.75		
7		10M	27,321.9711	Value 8th Feb				9,703.75		171,076.16
8		5M	22,321.9711					4,851.88		175,928.04
13		21M	1,321.9711					20,391.00		196,319.04
Mar. 11				Bce. trn. l. p. 278			196,319.04			

Penn Company 4½% due 1921

Date	Memo.	Debits	Credits	Balance	
				Dr.	Cr.
1920					
Nov. 6	O. L. #6 p. 278		$96,467.75		
Dec. 15	Coupon 1M		22.50		$96,490.25
17	Coupon 321.965		7.24		96,497.49
1921					
June 15	1M @ 100 I		1,022.50		97,519.99
17	321.965		329.21		97,849.20
1922					
Dec. 29	Penn R. R. Co	$1,205.00			
29	Jl Penn 4½ exp	79,603.48			
29	Jl interest	728.04			16,312.68
29	Pd Pa. R. R. Co	8,156.34			
29	Pd K. L. & Co	8,156.34			

Chicago, Milwaukee & St. Paul 4% gold (French bonds) synd.

Date	Quantity			Memo.	Price		Debit	Credit	Balance	
	Bought	Sold	Balance		Bo't	Sold			Debit	Credit
1915 Dec. 27				Cables			140.26			
1916 Jan. 24							25,121,992.97			
24	[1] 2,949	3,937.83		N. A. & City Co.				12,560,996.49	12,561,136.74	
25				L. Hauser & Co.						
25				1/16% comn. on fcs. 153,051,000			16,323.70		12,577,460.44	
26				Exps.			101.96		12,577,562.40	
Feb. 1		29,493 M.						28,436,167.57		
1				N. C. Bank			12,560,996.49			
1				Acc'd int.			23,939.72			
1				St. Paul Ry. Co.			1,575,000.00			
1				Distribution a/c			1,575,000.00			123,668.96
2				Postage			10.00			123,658.96
3				Cables			289.80			
3				1/16% on fcs. 11,317 M			597.39			
3				Cables			68.31			122,703.46
4				Lawyers fee			7,809.40			114,804.06
9				Shipping exp.			7.33			114,796.73
Mar. 23				L. Hauser Co. 1/16% comn.			249.89			
23				Cables			16.27			
23	[2] 456,521.9354			Bonds			380,078.13		274,547.56	
27		456 M.		1,459.7654				439,077.33		164,529.77
29				Marine ins.			70.55			164,459.22
Apr. 26				a/c conversion of bds.			55,323.98	Co.		109,135.24
28	[3] 95,775.18						81,625.94			
28			97,234.9454	1/16% comn. on fcs. 994 M			52.42			27,456.88
May 2	76,986.2867						65,612.79			
2			174,221.2321	1/16% comn.			42.18		38,198.09	
3		7 M.	167,221.2321	U. S. tax			.10	6,776.97	31,421.22	
4		34 M	133,221.2321				.30	32,890.50		1,468.98
26	54,054.2013		187,275.4334				46,401.36		44,932.38	
June 1				Coupons, 133 M				2,660.00		
1	27,460.69		214,736.1234				23,572.88			
1				1/16% com. fcs. 142,500			15.09		65,860.35	
2		187 M.	27,736.1234					177,203.28		
2				Coups. 54 M				1,350.00		112,692.93
3				Pd. Chic. Milw. & St. Paul Ry. a/c expenses			8,628.80			
3				Error 54 M coups.			270.00			103,794.13
6				c/m on fraction				14.72		
6		5 M.	22,736.1234					4,746.53		108,555.38

June 9	481.7665		23,217.8899	C'pon 27M			414.08	540.00		108,681.30
14				Int. on factions				9.64		
14				Lk to St. Paul Ry. Co			9,272.30			99,418.64
16	266,898.641		290,116.5309				225,590.68		126,172.04	
20		125M	165,116.5309					118,076.39	8,095.65	
22	96,353.30		261,469.8309				81,440.68		89,536.33	
23				Diffce on pcs 500M			1,999.95		91,536.28	
July 6	310,739.3925			572,209.2234			262,646.19		354,182.47	
7		144M		428,209.2234				135,936.00	218,246.47	
8				1/16% comn			170.81		218,417.28	
10		5M		423,209.2234				4,721.67	213,695.61	
12		250M		173,209.2234				236,138.89		22,443.28
21	249,458.6937			422,667.9171			211,946.95		189,503.67	
26				1/16% comn			137.13		189,640.80	
27				Cables			59.25		189,700.05	
27		50M		372,667.9171				47,186.11	142,513.94	
Aug. 3	169,003.6882			541,671.6053			143,590.17		286,104.11	
7				1/16% comn			92.90		286,197.01	
10		200M		341,671.6053				188,533.33	97,663.68	
16		7M		334,671.6053				6,620.83	91,042.85	
18		200M		134,671.6053				188,711.11		97,668.26
21		50M		129,671.6053				4,731.94		102,400.20
25	117,261.9661			246,933.6714			99,628.98			2,771.22
25		5M		241,933.6714				4,740.42		7,511.64
26				1/16% comn			64.46			7,447.18
28		5M		236,933.6714				4,748.33		12,195.51
Sept. 6				Exp. pd. St. Paul Ry. Co			2,379.96			9,815.55
11		236M		Tax 933.6714			.10	223,579.72		233,395.17
18				St. Paul Ry. Co			100,000.00			
18				Distribution a/c			100,000.00			33,395.17
Nov. 1	213,037.1463			213,970.8177			189,246.61		155,851.44	
8	219,396.4641						194,895.76			
8		231M		202,367.2818				224,273.73	126,473.47	
9		5M		197,367.2818				4,869.03	121,604.44	
9				Comn			240.57		121,845.01	
13		197M		367.2818				191,557.88		69,712.87
23				Comn			420.29			
23	755,506.2253			755,873.5071			671,136.44		601,843.86	
29		20M		735,873.5071				19,470.56	582,373.30	
1916										
Dec. 1				Coups 735 M				14,700.00		
1		250 M		485,873.5071				238,125.00	329,548.30	
11				Pd. exps. a/c L			1,948.00		331,496.30	
14				Int. on 873.41				17.47	331,478.83	
18		100 M		385,873.5071				95,188.89	236,289.94	
21				Cables			8.37		236,298.31	
22	1,901,050.607						1,655,313.56			
22				1/16% comn., 2,286,924.1141			1,057.57		1,892,669.44	

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[1] Fcs. 153,051,000.

[2] Fcs. 2,369 M.

[3] Fcs. 497 M.

Chicago, Milwaukee & St. Paul 4% gold (French bonds) synd.—Continued

Date	Quantity			Memo.	Price		Debit	Credit	Balance	
	Bought	Sold	Balance		Bo't	Sold			Debit	Credit
1916										
Dec. 26		2,286 M		9924.1141				2,163,271.25		270,601.81
28				St. Paul Ry. Co			112,000.00			
28				Distribution a/c			112,000.00			46,601.81
29				Cables			16.24			46,585.57
				Add'l int. on 786 M, 3 days				262.00		46.847.57
1917										
Jan. 3	152,141.86			153,065.9741			132,475.42		85,627.85	
5				1/16% comn			84.64		85,712.49	
8		150 M		3,065.9741				143,866.67		58,154.18
11		3 M		65.9741				2,878.33		61,032.51
17				1/16% comn			22.55			61,009.96
								5.50		61,015.46
Feb. 8	30,640.35			30,706.3241			26,679.66			34,335.80
14		10 M		20,706.3241				9,481.11		43,816.91
16		2 M		18,706.3241				1,901.67		45,718.58
19		18 M		706.3241				17,121.00		62,839.58
Mar. 21				Cables			16.51			62,823.07
Apr. 10	205,328.882			206,035.2061			181,375.79		118,552.72	
11				1/16% comn., 206,035.2061			116.83		118,669.55	
18		10 M		196,035.2061				9,477.22	109,192.33	
May 3				Cables			2.50		109,194.83	
7		1 M		195,035.2061				944.83	108,250.00	
8		1 M		194,035.2061				942.44	107,307.56	
18				Cables			11.00		107,318.56	
22				St. Paul R. R. Co. (exps.)			3,470.60		110,789.16	
June 1				Coups on 194 M				3,880.00	106,909.16	
11	106,181.3366			300,216.5427			89,851.39		196,760.55	
14				1/16%			60.10		196,820.65	
14				Int. on $35.11, bds				.70	196,819.95	
21		15 M		285,216.5427				13,683.33	183,136.62	
22		2 M		283,216.5427				1,824.67	181,311.95	
28				Cables			8.75		181,320.70	
July 11		10 M		273,216.5427				9,094.44	172,226.26	
19		15 M		258.2165427				13,655.00	158.571.26	
31				Cables			18.50		158,589.76	
Aug. 24		3 M		255.2165427				2,633.92	155,955.84	
Sept. 5		75 M		180.2165427				64,439.58	91,516.26	
6		10 M		170.2165427				8,593.06	82,923.20	
7		86 M		84.2165427				73,909.83	9,013.37	
12		1 M		83.2165427				863.72	8,149.65	

15		10 M		73.2165427				8,640.56		490.91
18		5 M		66.2165426				4,321.39		4,812.30
Oct. 1		5 M		63.2165427				4,241.67		9,053.97
9		6 M		57.2165427				5,027.83		14,081.80
Nov. 7				¼% comn				254.85		14,336.65
Dec. 3				Coups 57 M				1,140.00		15,476.65
4		−58.21		57,158.3327				43.68		15,520.33
5				Coups on 216				4.33		15,524.66
28		3 M		54,158.3327				2,349.00		17,873.66
31		54 M		158.3327				42,330.01		60,203.67
31				St. Paul Ry. Co			23,000.00			
			158.3327	Distribution a/c			22,000.00			15,203.67
1918 Jan.– Mar. 11				Bce. to n. l. p. 239			15,203.67			

Pennsylvania Company, 4½% notes due 1921

Date	Quantity			Memo.	Price		Debit	Credit	Balance	
	Bought	Sold	Balance		Bo't.	Sold			Debit	Credit
1918										
Mar. 11			1,321.9711	O. L. page 375				196,319.04		
June 17				Coupon 1M				22.50		196,341.54
18				Coupon 321.97				7.24		196,348.78
Dec. 16				Coupon 1321.97				29.74		196,378.52
1919										
Jan. 8				Penn. Co. on a/c			50,000.00			96,378.52
8				Jl. to K. L. & Co			50,000.00			96,378.52
June 16				Coupon 1M				22.50		96,401.02
Dec. 15				Coupon 1M				22.50		96,423.52
23				Coupon 321.965				14.49		96,438.01
1920										
June 15				Coupon 1M				22.50		96,460.51
July 1				Coupon 321.965				7.24		96,467.75
Nov. 6				To N. L. $7 page 203				96,467.75		

Chicago, Milwaukee, St. Paul Ry. Co., 4% 1935 bds.

Date	Quantity			Memo.	Price		Debit	Credit	Balance	
	Bought	Sold	Balance		Bo't.	Sold			Debit	Credit
1918										
Mar. 11			158.3327	O. L. page 486				15,203.67		
22				St. Paul R. R. Co. Exps			918.60			14,285.07
June 3				Coupon $158.24				3.16		14,288.23
Dec. 2				do				3.16		14,291.39
1919										
Jan. 10				Vault Rent pd. to 1925			1,460.00			
10				Postage telegrams, etc			150.00			
10		158.24						129.75		12,811.14
14				Interest			4,839.81			
14				Chic. M. St. Paul Ry. Co			3,485.67			
14				Distribution a/c			4,485.66			

Chicago, Milwaukee, & St. Paul, 4% French bds. distribution acct.

Date	Quantity			Memo.	Price		Debit	Credit	Balance	
	Bought	Sold	Balance		Bo't.	Sold			Debit	Credit
1916										
Feb. 1				From Synd				1,575,000.00		
1				Nat'l City Bk			700,000.00			
				Clark D. & Co			40,000.00			
				Kuhn Loeb & Co			700,000.00			135,000.00
2				½% Com'n on 29,493,937.83 bonds			147,469.69		12,469.69	
Mar. 23				½% Com'n on 456,521.93 bonds			2,282.61		14,752.30	
Sept. 18				From Synd				100,000.000		
18				Clark, Dodge & Co			5,000.00			
				Nat'l City Bank			35,000.00			
				Kuhn, Loeb & Co			35,000.00			
				½% Com'n on 1,464,474 bonds			7,322.37			2,925.33
Dec. 28				From Synd				112,000.00		
				½% on 3,088,990 bds			15,444.95			
				Nat'l City Bank			45,000.00			
				Clark D. & Co			6,300.00			
				Kuhn, Loeb & Co			45,000.00			3,180.38
1917										
Dec. 31				½% on 494,292.43 bds			2,471.46			
				Clark, D. & Co			2,000.00			
				Nat'l. City Bk			10,000.00			
				Kuhn, Loeb & Co			10,000.00			
				From Synd				22,000.00		
1918										
Mar. 11				Za. to n. l. p. 238			708.92			
1919										
Jan. 14				From Synd. a/c				4,485.66		
14				Clark Dodge & Co			227.65			
14				Nat'l. City Co			2,483.46			
14				K. L. & Co			2,483.47			

Exhibit No. 2384

NEW YORK, NEW HAVEN & HARTFORD R. R. CO. 4% DOLLAR DEBENTURES, DUE APRIL 1, 1922, RECEIVED IN EXCHANGE FOR FRANC BONDS

On November 12, 1915, a group was formed to purchase from the French Government any part of the issue of Fcs. 145,000,000 the New York, New Haven & Hartford Railroad Co. French franc loan of 1907 debentures at approximately $79 per Fcs. 500 debenture. The group consisted of:

Lazard Freres	10/150
First National Bank	35/150
National City Bank	35/150
J. P. Morgan & Co	70/150

Such debentures as were purchased up to July 1, 1917, were stamped by the company "Payable in Dollars at the Mint Parity of Exchange (5.18 to the dollar)", making the value of a Fcs. 500 debenture $96.50 and coupon $1.93. The railroad company received a commission of 2½% on the face value of the debentures so stamped.

From November 12, 1915, to July 18, 1917, 150,475 franc loan debentures of Fcs. 500 each were purchased (Fcs. 75,237,500).

The company accepted 4,169 debentures of Fcs. 500 each as compensation for stamping, leaving 146,306 debentures, for which $14,118,529 par value in 4% dollar debentures were delivered by the railroad company in exchange.

While some of the bonds acquired were sold in block for the account of the group, a large portion was carried by each individual member of the group. J. P. Morgan & Co. did not finally dispose of all of its bonds until 1919. J. P. Morgan & Co.'s commitment in the underwriting totalled approximately $7,000,000 and the net result showed a profit to them of $273,192.74.

Ex. 27.]

("Exhibit No. 2385" appears in text on p. 8215.)

Exhibit No. 2386

J. P. Morgan & Co.,
New York, Dec. 9, 1914.

[Copy of telegram received from H. P. Davison, London, to J. P. Morgan & Co.]

No. 9. Morgan, Grenfell together with Lazards have formed accepting syndicate for Hudson who are acting as purchasing agents for French Government here and in Canada to amount £3,500,000 sterling. They suggest it might be possible make similar arrangement for us, that is to say if we were to act as purchasing agents for Russia and or France they might arrange for acceptance bills of well known, responsible American houses from whom goods purchased, and from others less well known with our guarantee, for perhaps £3,000,000. How much do you suppose our market would take of like acceptances, say 90 days with one renewal? This suggestion sent for your consideration, as yet matter entirely indefinite this side. Hope Russian negotiations can be kept in hand until visit Paris when matter should be better understood.

Exhibit No. 2387

[Copy]

Washington, *February 6, 1915.*

In writing its acceptance regulation, the Board had of necessity to bear in mind the problem of what attitude Federal Reserve banks should take in case they should be offered acceptances drawn for the purpose of financing transactions involving the importation or exportation of goods but drawn for account of foreign governments.

The question had to be considered from several points of view—one the broad economic basis, involving the question of whether foreign governments shall be permitted to finance their requirements by using the rediscount facilities of the Federal Reserve Bank System or whether they should not be forced to do their financing in the security market by selling their long-term bonds or short-term treasury notes. In the latter case, the appeal is to the investor, while if permitted to rediscount their bills of exchange drawn on American banks they would absorb the funds of the bill market; that is to say, the facilities which properly should be reserved for the requirements of commerce and trade and for the individual borrower. One might say, for the "smaller" borrower, because what applies to a government would apply with equal force to the large corporations, for their requirements go into hundreds of millions and, for this same reason, they should not be permitted to absorb the commercial-credit facilities of the banks of the country. They have at their disposal the broad security market, which is not available for the individual borrower. The scope of the operations of such large corporations and governments is such that, if permitted to borrow on a large scale by using short-term banking credits, they would be apt to absorb the bulk of the credit facilities of note-issuing institutions, and the consequence would be that whatever would be left for the individual borrower would be available for him only at so much higher price.

If, to illustrate, a government wanted to sell six months' treasury notes on its own credit, it might be able to do so only upon an eight to ten percent basis if it appealed to the investor direct. If a banker steps in between, and for a sufficient compensation, is willing to take the risk and substituted his own credit by giving his acceptance, the investor puts up his money at, let us say, three percent. The difference has gone to the government and to the guaranteeing banker. As a matter of fact, the transaction results in the foreign government selling its six months' warrant with the guaranty of the American banker and selling it in the bill market instead of the security market at three percent instead of eight percent.

To further illustrate, if the Reserve banks would buy $25,000,000 of these acceptances at three percent, it is probable that they would have to put up the rate at once for their further purchases of acceptances as they may be offered by others for the financing of importations and exportations, for their means available for this purpose would have been largely absorbed, and it is easy to see that the transactions might well take a larger scope and seriously interfere with the program outlined for the Federal Reserve banks. Furthermore, it should be considered that the law struck out the power of Federal Reserve banks to invest in foreign warrants. The Federal Reserve banks are permitted only to buy warrants issued by States and municipalities of the United States. The financing of foreign governments was advisedly eliminated from the act.

Foreign government banks have adopted very definite methods to rule out from their transactions what they call "finance bills"; that is to say, bills that are not based strictly on commercial transactions but such that are drawn for account of banks or brokers for the purpose of carrying bonds or stocks or so-called "financing." There is no doubt that the Federal Reserve banks will have to adopt a similar policy of self protection in this respect. The Federal Reserve Board for this reason included in its regulations a clause (IIc) providing that a banker's acceptance must be "a bill drawn for account of and by a commercial, industrial, or agricultural concern (that is, some company, firm, corporation, or individual) directly connected with the importation or exportation of the goods involved in the transaction out of which the acceptance has originated." This would bar such transactions as would be drawn for account of a foreign government or a finance institution.

If this broad view be adopted, it would dispose of the second angle from which the problem will have to be viewed; that is, the question of whether Federal Reserve banks should purchase bills drawn by or for account of foreign governments which are belligerents. One particular case is actual: it is the question of Russian bills drawn, as the Board has been informed, by the Russian Ambassador, on certain banking firms for the purpose of financing goods to be exported. The question involved in this case offers a very simple proposition. These bills show on their face that they are drawn for account of a foreign government at war, and the question is shall these bills be purchased by a bank which is operating under government auspices and issuing notes which are direct obligations of the United States, banks which, furthermore, by the law, will be the only fiscal agents of the Government and which may hold large Government deposits which might directly be used in the purchase of such bills.

The question if put in this form would have been one not to be disposed of by the Federal Reserve Board but rather by those in charge of our national policy. As long as the Federal Reserve Board covered the entire question by the broad provision as outlined under II (c), the question of belligerency and neutrality was not involved. If, however, this clause should be omitted, the banks would have to be prepared to act upon the question of whether or not they should refuse to buy these bills or any bills because they would have been drawn for account of a belligerent.

The Board in its deliberations also touched upon the question of contraband articles, but it was felt that it was not the Federal Reserve banks' duty to follow the proceeds of the rediscount operation to this extent and that it might properly be considered as a step of superarrogation of power if the Board attempted any regulation in this respect.

It is felt, however, that the Board should be certain that, in outlining its plan of procedure, it should act in harmony with the Government. It is to be expected that whichever way the Board acts in this matter criticism and innuendoes will be directed against it, and it is important, therefore, that the Board should be certain of its ground and sure that it is carrying out a policy which is in entire harmony with that of the administration.

It was the general opinion that if, as planned, the Board regulated on the broad lines of sound and well recognized economic principles, the question could be handled without giving offence to any particular side.

The question which is being discussed by the Board in this connection is, should Clause Ii (c) read "Such acceptance must be drawn for account of *and* by a commercial firm, etc." In the first case, a bank could not make its acceptance eligible for rediscount with a Federal reserve bank if the acceptance was made for account of a government for a government is not a commercial firm or manufacturer or producer. In the second case a commercial firm by drawing the bill for account of a foreign government would comply with the requirement of the regulation. It ought to be added that the vast majority of such import an export transactions is not done directly for account of foreign governments but by some foreign firms acting as contractors. Any foreign government, by charging a commercial firm with the purchase of the goods, could secure the articles and they could be financed through American acceptances eligible for rediscount. It is only when the foreign government wants to use its own credit in our market and secures accommodation, not as a direct borrower selling its own treasury notes, but by the subterfuge of letting the banker accept and when it secures such credit from the bill market instead of from the investor, that the regulation would act as a preventive.

P. M. W.
2–6–15.

EXHIBIT NO. 2388

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Mar. 29th, 1915.

[Copy of telegram received from J. P. Morgan, London]

Believe it will be desirable for the present to work along all the lines by which we can create exchange. Ask Strong if Federal Reserve Board have decided as to approving purchase by Federal reserve banks of bills drawn by joint-stock banks here on U. S. of America acceptors, proceeds to be used for export materials.

Very glad about French business, but understood before leaving Washington did not wish be placed in position approving or disapproving any steps taken to arrange deferred payments for materials supplied from United States, so presumed we were free do as seemed wise to us without regard to opinion there. J. P. Morgan.

MORGAN.

("EXHIBIT NO. 2389" appears in text on p. 8219.)

EXHIBIT No. 2390

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, meeting of January 9, 1915]

Discussion of the future policy of the Board ensued and on motion it was voted to take up the question of framing regulations governing the purchase of domestic and foreign bills of exchange, the work to be untertaken immediately after the circular on acceptances had been disposed of.

It was agreed that nothing in the action relating to bills of exchange should be permitted to interfere with the prompt issuance of the acceptance circular and regulations.

EXHIBIT No. 2391

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, January 14, 1915]

On motion, after consideration, the acceptance question was referred to a special subcommittee consisting of Mr. Warburg, Mr. Elliott, and Mr. Willis for report.

EXHIBIT No. 2392

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, January 15, 1915]

The draft of a circular relating to acceptances was read and, after discussion, was laid on the table until Monday.

EXHIBIT No. 2393

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, January 28, 1915]

The draft of the proposed circular relating to bank acceptances was taken up and after discussion was made special order for Friday morning, January 29, at 11:00 o'clock.

EXHIBIT No. 2394

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, January 28, 1915]

On motion, consideration of the circular relating to acceptances was begun and continued throughout the remainder of the meeting.

EXHIBIT No. 2395

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, February 1, 1915]

The remaining sections of the circular on acceptances were taken up for consideration and on motion were tentatively approved, and both circular and regulations were ordered to be put in type.

EXHIBIT No. 2396

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, February 2, 1915]

A revised draft of the proposed circular and regulations on bankers' acceptances was taken up for consideration, read, and further revised.

It was ordered that corrected copies of the draft as finally revised be obtained from the Printing Office.

EXHIBIT No. 2397

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, February 6, 1915]

Consideration of proposed circular #5 on bankers acceptances and regulation D on bankers' acceptances, was resumed, but without definite conclusion.

EXHIBIT No. 2398

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, February 9, 1915]

The proposed circular on bankers' acceptances was further discussed and it was agreed that a revised draft embodying all changes should be considered at the meeting to be held on Thursday, February 11.

Discussion of the future policy of the Board ensued and on motion it was voted to take up the question of framing regulations governing the purchase of domestic and foreign bills of exchange, the work to be undertaken immediately after the circular on acceptances had been disposed of.

It was agreed that nothing in the action relating to bills of exchange should be permitted to interfere with the prompt issuance of the acceptance circular and regulations.

EXHIBIT No. 2399

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, February 11, 1915]

The draft of a proposed circular on acceptances was taken up and after further revision was approved.

EXHIBIT NO. 2400

February 8th, 1915.

DEAR MR. DELANO: Referring to our telephone conversation, I enclose draft of a clause suggested as a substitute for paragraph C of section 2 of the proposed regulation covering the discount or purchase of acceptances.

Your attention is directed to the last paragraph of section 13 of the Federal Reserve Act which contemplates that the Federal Reserve Board shall make regulations restricting the discount of bills receivable (notes), and of bills of exchange and acceptances, but no such clause appears in section 14 of the act.

To the extent that acceptances and bills of exchange are dealt with under the provisions of section 14, it seems to me that considerable freedom should be permitted unless it is contemplated that the last paragraph of section 13 referred to, should also, be made to apply to section 14.

You will, also, notice that I have omitted the language "and drawn for an amount not exceeding the approximate value of the goods to be transported." As the regulation is drawn, the burden of determining the value of the goods would rest upon the reserve banks and the procedure to obtain this information would be difficult and cumbersome. On the other hand, it is more likely that this admonition will be ignored by the banks and certainly it will not be wise to include a provision in the regulation which it is anticipated will not be regarded. The purchase of acceptances is based upon the credit of the acceptor, and I hope the Board will be willing to omit this limitation which it seems to me is not a practicable one.

Your attention is, also, directed to paragraph D of section 2 of the regulation which would preclude the purchase of bills of exchange and acceptances growing out of commerce between the United States and its dependencies, that is, Porto Rico, Hawaii, and the Philippines. If the phraseology of paragraph 99 of the act reading "based on the importation and exportation of goods" can be construed to include commerce between the United States and these dependencies, it might be desirable to make clear in this regulation that bills growing out of imports and exports of that character might be purchased by the Federal Reserve banks.

Mr. Curtis calls my attention to the fact that the Supreme Court of the United States has rendered a number of decisions known as the "Insular Cases," reported in volumes 182 and 183 of the Supreme Court reports, which can probably be taken to indicate that commerce between the United States and its insular possessions may be construed as imports and exports. Inasmuch as the words "importation" and "exportation" are used in the Federal Reserve Act, this might afford ground for the inclusion of bills growing out of such commerce within the scope of the proposed regulation.

Your attention is also directed to paragraph F of section 2, which it seems to me does not make entirely clear what kind of bill is referred to. Ordinarily, a documentary bill when presented to the drawee is accepted and handed back to the party presenting it, minus the documents which originally accompanied the bill, and the acceptance of the banker or of the drawee is substituted for the specific bills of lading or other collateral. Without getting a legal opinion on the point, it seems to me possible to construe the clause so that the acceptance, minus the documents, would no longer be secured by the lien or transfer of title, thereby subjecting it automatically to the limitations of paragraph G. Might it not be possible to change that paragraph so as to read as follows: "A bill of exchange may be considered as drawn in good faith against 'actually existing values' as under 1 (c) hereof, when it is secured by a lien on or by transfer of title to the goods to be transported or when the character of the bill indicates that the document representing such lien or title, originally accompanied the bill prior to acceptance."

In conclusion, permit me to repeat briefly one portion of the statement which I made to the Board Friday afternoon: Our merchants and manufacturers are now conducting a perfectly lawful trade with foreign customers. A very considerable part of that trade may be with belligerent nations and may consist of articles which are contraband or conditional contraband of war. Commerce of that character is authorized by our own laws and by international law and convention. It seems to me that any different rule applied to the credits which are extended for the purpose of conduct of that commerce should be adopted with great caution and the objection which I made to the proposed regulation was based upon my belief, first that the same rule of neutrality should apply to the credit as does apply to the commercial transaction; second, that any policy to be adopted by our government in regard to this matter should not be made the subject of regulation by the Federal Reserve Board, but should be determined by the President of the United States.

Of course, it goes without saying, as I stated in Washington, that this bank will will observe whatever rules are adopted by our Government in this matter.

Verry truly yours,

——— ———, *Governor.*

F. A. DELANO, Esq.,
Federal Reserve Board,
Washington, D. C.

BS Jr/VCM.

("EXHIBIT No. 2401" appears in text on p. 8220.)

EXHIBIT No. 2402

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from minutes of the Federal Reserve Board, April 2, 1915]

The Secretary of the Board presented the proof of a revised circular relating to acceptances. On motion this was ordered printed as circular 11, and regulation J.

On motion, the regulation relating to acceptances by member banks up to 100% of capital and surplus, was approved and ordered printed as circular 12 and regulation K. It was agreed that the signature of the Governor of the Board should be affixed to both circulars and that both be submitted to Counsel for his approval.

EXHIBIT No. 2403

[Excerpt of letter]

APRIL 7, 1915.

DEAR MR. JAY: I hope your trip will be as beneficial as mine was, for I succeeded in shaking my cold almost entirely with a lot of exercise and fresh air and feel immensely better than when I went away.

There is little news from the office of importance. The acceptance regulation has been finally adopted in substantially the form reported just before you left. While it is not altogether satisfactory, I think it will do. Paragraph c, the one in which we are most interested, reads as follows:

"A bankers' acceptance must be drawn by a commercial, industrial or agricultural concern (that is, some person, firm, company or corporation), directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated, or by a 'banker.' In the latter case, the goods, the importation or exportation of which is to be financed by the acceptance, must be clearly specified in the agreement with or the letter of advice to the acceptor. The bill must not be drawn or renewed after the goods have been surrendered to the purchaser or consignee."

The first paragraph is substantially as it was in the first regulation; the last two paragraphs raise the possible objection that the Federal Reserve bank is put on inquiry to determine whether the bill conforms to the requirements or not, as paragraph d, which provides for the affixing of a certificate by the acceptor affords no representation that the goods have been clearly specified or that the bill is not a renewal. Warburg telephones me that he would be willing to have us send out a little letter of interpretation of this section to our members, in case we find it necessary to do so. Paragraph f, which was the other principal point under debate, reads as follows:

"A bill of exchange accepted by a 'banker' may be considered as drawn in good faith against 'actually existing values' under 21 (c) hereof when the acceptor is secured by a lien on or by transfer of title to the goods to be transported; or in the case of release of the goods before payment of the acceptance by the substitution of other adequate security."

* * * * * * *

Sincerely yours,

——— ———, *Governor.*

PIERRE JAY, Esq.
Hampton School, Hampton Va.

EXHIBIT No. 2404

APRIL 9, 1915.

DEAR HARRY: Thank you for yours of this date, enclosing copy of Mr. Morgan's message. I enclose two copies of circulars 11 and 12, to which are attached regulations J and K.

Paragraph (c) of article 4 bears on the matter we discussed. By comparison of this regulation with the one which preceded it, possibly you can arrange to cable the changes to Mr. Morgan, and you will note that the important ones are contained in paragraphs (c) and (f) of article 4. I doubt if this language requires any particular explanation except that I think it is fair to assume that the regulation will be liberally interpreted in the interest of our own commerce and banking.

Very truly yours,

——— ———, *Governor.*

H. P. DAVISON, Esq.,
23 Wall Street, New York City, N. Y.

BS Jr/MVH.
(Encs. 4)

("EXHIBIT No. 2405" appears in text on p. 8221.)

("EXHIBIT No. 2406" appears in text on p. 8221.)

EXHIBIT No. 2407

[Pencil notes: "Original in $\frac{3273\ .\ ''}{010\text{-}01\text{-}T}$]
[Pen written: "F. C. W. to E. B. Tracy."]

4/1 5 /1

George Woolsey, Mr. Bonbright, Mr. Pierson, and I have read your various letters with a great deal of interest. I think I can appreciate how and why you feel as you do. The cause of all these misunderstandings is the usual one of attempting to do difficult and untried business three thousand miles away. We may have been remiss in keeping you in touch with the various steps of our development but we have tried to tell you frankly everything, and we admit that the business, because of the terms we are trying to impose upon the foreign governments, has come to a practical deadlock but we all feel that we are only on the eve of a very large and important and comparatively safe business if we keep our heads cool and do not scatter our efforts. We are learning by experience and everyone who comes back from the other side such men as, Mr. Blackall, Capt. Hunsiker (from England, and a friend of Lord Fairfax), and others say we must stand by our resolution to insist upon payment cash or satisfactory Government securities, f. o. b. New York. Mr. Blackall would not even consider for a moment the question of payment on arrival of documents in France by a concern as unequestionably good as Schneider & Company although the goods have been inspected and accepted on this side and, although I would not say now that we may not modify our decision somewhat, in the case of Schneider & Company if we could do a large amount of business with them, allowing them to pay in France if we were protected on exchange, provided the goods were inspected and accepted on this side, and we could get our money on cable advices from this side, not on arrival of the goods however. We realize the force of your argument and know that you attempt to do what you believe is perfectly safe business on a c. i. f. basis, but it is a waste of time to argue this question further and while we do not know as much about your end of it as you do, by a long way, the report we received from Mr. Blackall is, that the business can be done along our lines, and a great deal of it. In fact, all the best, most reliable, business can be done this way if we insist upon it and he thinks that Schneider & Company, who know these are the usual terms will meet them if we firmly request them to. I have just finished reading Mr. Bonbright's letter to you dictated yesterday and this letter is, in a sense, a repetition, Louis Stoddard had a cable from De Saulles yesterday, and I understand that you are coming over with him. I rather hope you are not because you are the one we depend on to run the business end of the foreign organizations. M.. Blackall has given his consent to become a director of this corporation and take entire charge of the metals and ordnance end of it. He seems very sound and a man of excellent judgment and a great deal of force. I expect Louis Stoddard to become president.

Now, as to the question of taking contracts in the name of Bonbright & Company. That is a much more difficult matter to decide chiefly because we want you, in every case, as far as you possibly can, to have the contract run from the Government to the manufacturer, which we supposed was what the Government wanted, and while we realize it is good advertising for Bonbright & Company, in France, it is also a risk. We have just learned that the contract for the 300,000 brass shell cases runs to Bonbright & Company. Bonbright & Company have made a contract with Mr. Blackall. Mr. Blackall now turns this whole thing over to a contract between Bonbright & Company and Sturges & Burn Manufacturing Company of Illinois, on whom we get very good reports, but you see how all this increases the risk, and we must get Sturges & Burn to put up a bond of $60,000 to indemnify us for our advance payment on May 1st of that amount. In this way the Factory Products Export Corporation become side-tracked, Bonbright & Company taking all the risk, ought to be getting all the profits. We have done practically all the business so far and have turned over one-half of the profit through the Factory Products Export Corporation to Austin, Nichols & Company. Austin, Nichols & Company thus far have only been half-hearted about the business, not willing to take the slightest risk and unless they are willing to pull their full weight of the boat, which I think they will be, as we get better acquainted, we will not be gaining much by having them along.

We are furthermore convinced, as you have fortunately pointed out, that it is a waste of time to look into anything or consider any offers of anything excepting that, for which you make inquiry from abroad.

Exhibit No. 2408

James Brown,
59 Wall Street, New York, June 8, 1915.

Dear Ben: The reason I telephoned this afternoon to know if you would be in town tomorrow is because it is most important that I should see you in connection with certain acceptance business originating on the other side. I want to make certain that the acceptance will be rediscountable with the Federal Reserve bank.

I have a meeting at eleven o'clock, but should like very much to have a few moments with you before that hour, if possible. Will you telephone to me?

Yours very truly,

(Signed) James Brown.

Benj. Strong, Jr., Esq.,
Governor, Federal Reserve Bank of New York,
New York City.

Exhibit No. 2409

334.1–1915

[Copy]

June 9th, 1915.

Dear Mr. Warburg: The matter I mentioned by telephone this afternoon is, briefly, as follows:

Messrs. Brown Brothers, of this city, are negotiating as syndicate managers with a group of French banks with a view to opening a credit of considerable size under the usual revolving commercial letter of credit, and they expect that the American group of banks that will accept drafts drawn by the French banks under this arrangement will be members of the Federal Reserve System.

The drafts will be drawn at 90 days' sight, although the maximum amount of credit, I am informed, will be continued as open credit for a period of nine months. Drafts will be drawn individually by the members of the French institutions on the individual banks in America in proportion to their respective interests in the respective syndicates; that is, drawing syndicate in France and accepting syndicate in America. Proceeds of the drafts when discounted are to be held by Brown Brothers & Company as syndicate managers and paid on order from the manager of the French group, but only for purchase of American goods for shipment abroad, as evidenced by the shipping documents.

The time drafts will bear on their face the evidence of having been drawn under the above credit. The object of the arrangement is to place dollar exchange at the disposal of the French banks to be sold to their customers as required to make payment for goods purchased in this country. The credit has no relation to orders for war materials, although if any particular customer of any one of the French group should happen to be an importer of such goods, there would be no prohibition against his being furnished with exchange.

This transaction is not undertaken for account of the French Government, but I am advised is strictly a banking transaction between the banks of the two countries.

The above is the substance of a statements made to me today by Mr. James Brown, of the banking firm of Brown Brothers & Company, who states that in the interests of the member banks, by whom some of these drafts will likely be accepted, he is anxious that the terms of the arrangements will be such as will comply with the terms of the Federal Reserve Act and the regulations of your Board, and that the drafts, when accepted by the member banks, will be of a character which might be purchased by this bank.

Considering the responsibility of the parties to the transaction and the obvious necessity for an arrangement of this character being perfected at this time, I would recommend a ruling by your Board that these drafts may be considered eligible for purchase by the Federal Reserve banks. Mr. Brown will write stating specifically the terms of the arrangement if you desire, but I have advised him that we have uniformly replied to inquiries of this character that we would prefer not to take any action which would appear to make us an original party to the arrangement.

Very truly yours,

/s/ STRONG, *Governor*.

Hon. PAUL M. WARBURG,
Federal Reserve Board,
Washington, D. C.

EXHIBIT NO. 2410

JUNE 17, 1915.

DEAR MR. WARBURG: Your letter of June 11th to Governor Strong relative to the matter referred to in Governor Strong's letter to you of June 9th was received by us yesterday morning.

I have had further talks with Mr. James Brown yesterday afternoon and this morning concerning the questions raised in your letter. According to my understanding, the credit, when arranged, is to be operated as follows:

The drafts all will be drawn at 90 days' sight. The proceeds will be placed with Brown Brothers to the credit of the French syndicate and will be paid out only against the exportation of goods. Assuming, for example, that the total proceeds lodged with Brown Brothers were twenty-five million dollars, an aggregate of only twenty-five million dollars of disbursements to finance exports would be made against it. Instead of making 270 day drafts at the outset they make three 90 day drafts, with the object of making the drafts, when accepted, eligible for purchase by Federal Reserve banks. But no portion of the proceeds of the original drafts is to be used in connection with renewals, and the proceeds of any cover remitted by the French syndicate to Brown Brothers will be placed in a separate account to be used in taking care of the acceptances as they mature. No part of the proceeds of such cover will go into the original account opened for the purpose of financing exports, but will be used in reducing the total amount of the acceptances.

It would not be practicable for Brown Brothers to write to the A B C bank, as you suggest on page 3 of your letter, because that would require drawing and accepting to cover specific shipments. The purpose of the plan is, in brief, to place in this country a large fund to be available for the double purpose of stabilizing exchange and financing exports, whether to France or other countries. The proceeds of the original drafts go into a special fund and are used only once in financing exports, but the French syndicate is given nine months within which to cover either the original drafts or such renewals, not exceeding two, as may be required. Provided you agree that the original draft need not apply to a specific shipment then about to be shipped, the question of renewals or extensions does not seem of vital importance. If it were possible for the banks to accept at 270 days at the outset, there would be no renewal question at all. Under the proposed plan the use of the proceeds of the original drafts is completely segregated from the financing of renewals and the ultimate payment of the obligation.

If the war should stop with the credit not entirely expended, there would be in time ample exports of various sorts to consume it, and the agreement would provide that the credit should be extinguished only in this manner.

Very truly yours,

—— ——, *Chairman.*

Honorable PAUL M. WARBURG,
Federal Reserve Board,
Washington, D. C.

PJ/RAH.

EXHIBIT NO. 2411

[Excerpt from minutes of the Federal Reserve Board, June 10, 1915]

A letter from Governor Strong of the Federal Reserve Bank of New York relative to the establishment of foreign credits in behalf of a group of French bankers, was referred to Mr. Warburg and Mr. Harding for report.

EXHIBIT NO. 2412

[Excerpt from minutes of the Federal Reserve Board, June 15, 1915]

Mr. Warburg presented a report with reference to the proposed plan of operation by a syndicate of French bankers, which had been presented by Brown Brothers, saying that he thought the proposal went in some respects rather too far, and suggesting that there ought to be a definite time within which the proceeds of drafts drawn by the French bankers could be used. Discussion ensued and the documents relating to the matter were placed in the hands of Mr. Hamlin for further study, it being understood that a letter drafted by Mr. Warburg, and included among these documents, should be transmitted without further action by the Board, unless some objection appeared.

EXHIBIT NO. 2413

[Excerpt from minutes of the Federal Reserve Board, July 9, 1915]

The opinion of counsel of the Board with reference to the question whether bankers' acceptances may be renewed on expiration was read to the board, and after discussion the secretary was directed to say to Governor Strong that the Board would like to have him present in writing a precise case involving the issues he had in mind respecting the renewal of acceptances. The secretary was also directed to say that the Board would be happy to see him in person, but that Tuesday, July 13, would be the first day available for that purpose.

Exhibit No. 2414

Brown Brothers & Co.,
59 Wall Street, New York, July 9th, 1915.

[Confidential]

$20,000,000 French commercial export acceptance credit.

Messrs. J. P. Morgan & Co.,
New York.

Dear Sirs: For the purpose of enabling French purchasers of American merchandise and other commodities for export to Europe to settle their accounts with American merchants, and at the request and on behalf of a group of strong institutions and private bankers in France, represented by Credit Lyonnais and Messrs. Heine & Company, of Paris, France, managers of the French group, we are arranging for an export commercial credit to be extended by a group of American banks, trust companies, and bankers. The individual members of the French group will draw ninety-day sight drafts to an amount in the aggregate of twenty million dollars ($20,000,000) upon the members of the American group, severally and in proportion to their respective interests in the credit, drawings to begin as soon as the necessary agreements have been executed in France. The drafts are to be forwarded by the French managers to us for acceptance and discount in two instalments of ten million dollars ($10,000,000) each, not less than ten nor more than fourteen days apart. The names of the French group and the amounts of their participations are enumerated at foot.

The credit is to be for a period measured by the terms of the ninety day drafts and two renewals thereof, approximately nine months. At maturity of the last renewal the members of the French group severally guarantee the payment in New York exchange or in gold coin of their respective drafts. The performance of these engagements on the part of the French group is to be guaranteed by the Bank of France in a manner satisfactory to us and is further to be secured by deposit with us, with power of rehypothecation and sale, of Bons de la Defense National and/or French Treasury bills, in francs, payable about one year hence to an amount at least equal to the face of the drafts as drawn, at approximately the rate of exchange prevailing at the time the agreements are executed in France.

A commission of one-quarter of one percent (¼%) is to be paid each American drawee upon the acceptance of each ninety days sight draft and upon each renewal thereof. The discount rate is fixed at five per cent (5%) per annum.

The proceeds of the drafts under the credit, when discounted, are to be held by us, to be used exclusively in payment for merchandise and other commodities to be exported from the United States to Europe.

The undertaking of each member of the American group is to accept his pro rata of the drafts drawn by the members of the French group and two renewals thereof and to guarantee discount to the extent of his participation at the agreed rate of five per cent.

All the business is to be transacted between the managers of the French group and ourselves as managers of the American group. All drafts will be presented for acceptance by us and will be discounted at best obtainable rates either at the Federal Reserve bank or in the open market. The difference between the actual proceeds of discount of each installment of all the acceptances which are discounted through us, and the face of such drafts less the agreed discount, is to be immediately remitted by us to or paid to us by those members of the American group whose acceptances are discounted through us and in proportion to their respective acceptances. Each acceptor, however, is to have the option of withdrawing his acceptance on paying forthwith the proceeds of it to us at the agreed discount rate of five per cent (5%), provided he notifies us of his election to do so at the time of his acceptance of each draft.

Our compensation is paid by the French managers and all legal and other expenses are provided for. We are advised that the acceptances will be "eligible" with the Federal Reserve bank.

In due course we will advise you of the execution of the necessary agreements in France and send you copy of the form of guaranty of the Bank of France.

We have allotted you a participation of two million five hundred thousand dollars ($2,500,000) in the above commercial export credit, and will thank you to advise us promptly whether you accept the participation and agree to the above term.

Yours very truly,

Brown Brothers & Co.

French group

Messrs. de Rothschild Freres & Co	$4,000,000=20%
Credit Lyonnais	4,000,000=20%
Comptoir National d'Escompte de Paris	4,000,000=20%
Mess. Heine & Co	2,000,000=10%
Mess. Hottinguer & Co	2,000,000=10%
Mess. Mallet Freres & Co	1,500,000= 7½%
Mess. de Neuflize & Co	1,500,000= 7½%
Banque Suisse et Française	1,000,000= 5%
Together for	20,000,000

Exhibit No. 2415

J. P. Morgan & Co.,
Export Department,
New York, July 8, '15.

[Copy of telegram despatched to Morgan, London]

5248. For H. P. Davison. For your information, Brown Bros. & Co., N. Y., have formed syndicate of leading banks and bankers here to accept 90 days' drafts drawn by various banks and bankers in Paris to the extent of $20,000,000. They call it a commercial export credit to enable merchants in France to pay for commodities of all kinds to be purchased here and exported to France. Drawers of drafts will be de Rothschild Freres, $4,000,000; Credit Lyonnais, Paris, $4,000,000; Comptoir National d'Escompte de Paris, $4,000,000; Heine & Co., $2,000,000; Hottinguer & Co., Paris, $2,000,000; and various houses for smaller amounts.

Drawings will be arranged upon scale, that is to say, each drawer will draw proportionate amount upon each acceptor. Plan provides for two renewals, 90 days each, accepting commission ¼% for each period and 5% interest. The $20,000,000 is to be covered by French Government Treasury bills and payment of the amount to be guaranteed by Bank of France in gold in New York City at the expiration of the 9 months.

Brown Bros. & Co. to be managers of the syndicate and hold the Treasury bills here and receive ½ or ¾ for their services. They have arranged with Federal Reserve bank that drafts and both renewals shall be discountable, Brown Bros. & Co. guaranteeing that proceeds of original drafts will be used only in payment for goods exported. Brown Bros. & Co. planned to sell all drafts in this market and thus practically start an open discount market, but is willing to give acceptors privilege withdrawing their own acceptances or other of like amount if desired. J. P. Morgan progressing so splendidly we mentioned matter to him. He is delighted with it and urged that we participate to the extent of $3,000,000, which we will do if we can get it.

Morgan.

Exhibit No. 2416

[Excerpt from cable #5490, for E. C. Grenfell from Morgan]

July 20, 1915.

Have today had a long talk with *Governor, Federal Reserve bank*, who suggests that one way of helping situation would be for *joint-stock banks* to temporarily arrange with *New York* banks that acceptance heretofore made by *London joint-stock banks* on merchandise be made in dollars by New York banks, under the guarantee of London joint-stock banks. You will see that the effect of this would be to take off from the market all bills covering exports of usual produce and merchandise which in ordinary course are covered by bills. This plan would involve replacements on the part of New York banks, for which it is believed arrangements could be made, as this business is high-class and desirable business. Disadvantages would seem to be the possible development of dollar business heretofore sterling business, but as conditions are abnormal, all resources [possible] must be considered. You understand our interest in this situation is only that of general welfare and in the interest of British credit, as we see it.

We regret sending such pessimistic report, but cannot too strongly urge upon you your serious and immediate consideration of this situation.—H. P. DAVISON.

NOTE.—Pencil notation enclosed in brackets.

("Exhibit No. 2417" appears in text on p. 8225)

EXHIBIT No. 2418

[From the House collection; custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

The PRESIDENT,
Cornish, New Hampshire.

DEAR GOVERNOR: I am enclosing you a copy of a letter I have just received from Bernstorff.

I did not arrange to see him as I first planned because he was conferring with Lansing and I did not think it necessary, in these circumstances, to do so. I am trying to plan a way to see him without it becoming known.

* * * * * * *

Your autograph note, enclosing memorandum from Page, came this morning, but not the other letter of which you speak. The postmaster assorted the mail himself and he says there was but one letter in a White House envelope. If it comes during the day I will add a line to this.

I think the time has come for me to get in touch with Sir Edward direct, and I shall do so at once. I have a feeling that, as far as the cotton producer is concerned, the proposal to purchase it would be more to our advantage than the present arrangement. This though would not satisfy the people that are creating this situation. I see evidences of a systematic and well-financed campaign in the South. Papers that formerly took one view have turned almost in a night to a contrary one, and I notice one after the other joining the cry.

There are some curious things going on in this country and I received some information the other day that may give us some light. I also have some information concerning the leakage in the State Department, and the names of two men (both of them, by the way, Bryan men) are given. I am arranging to let Lansing have this information so he may run it down.

* * * * * * *

Delano and Governor Strong of the New York Federal Reserve bank, were here yesterday to see me concerning the serious condition that confronts us in regard to foreign exchange. They believe that unless the Federal Reserve System broadens its basis of credits that another month or two will bring about a crisis and almost a complete breakdown of our foreign trade.

They told me that three of the Reserve Board are in favor of broadening the credits but that two are opposed to it. They did not give the names for it was not necessary.

My advice was that while we were living under abnormal conditions we should have the courage to meet them in a way that will redound to the advantage of our country, and that credits should be broadened as far as perfect safety would permit. I hope this view meets with your approval.

Affectionately yours,

——— ———.

MANCHESTER, MASSACHUSETTS, *July 28, 1915.*

Exhibit No. 2419

[From the House collection; custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

(386—Diary—August 3, 1915—200, 201)

Governor Charles Hamlin of the Federal Reserve Board lunched with me today. He gave a full account of the inside workings of the Board. He said Paul Warburg had been perfectly fair and had not injected his feelings into the situation but he was not as broad a man as he had first thought. He knew commercial banking and its niceties as well as it could be known, but he did not grasp the bigger questions of policy, although he thought his appointment had been justified.

Harding and Delano were doing their work well. Miller, he thought least of, and yet he, too, had justified his appointment. He was satisfied with conditions, although it was difficult to work with Comptroller Williams.

We went into the question of broadening credits and I found he was not impressed with the importance of this as was Delano and Strong. I, therefore, endeavored to straighten him out in this direction. He said the Board's counsel thought acceptances could not be made for longer than six months and the Comptroller agreed with this decision. I pointed out the actual wording of the law and said the Board's ruling prevented it but the law itself did not. Therefore, in my opinion, all that was necessary was for the Board to rescind their former action and make a new ruling. He promised it should be done in a way not to restrict credits and so our foreign trade should go on uninterrupted.

Exhibit No. 2420

[From the House collection; custody of Prof. Charles Seymour, Yale University]

The President,
The White House, Washington.

Dear Governor: You know, of course, there is trouble brewing in the Federal Reserve Board.

I sympathize with McAdoo's view in regard to foreign acceptances, and I hope there may be some way of bringing it about without a public rupture.

To my mind, the Federal Reserve Act is the most beneficial piece of legislation that has been enacted in this country, and I shall be surprised if history does not so regard it. It is unfortunate that any controversy has arisen among the members, and, if I were in your place, I would caution McAdoo to go slow.

Miller might be gotten out a little later, and then, perhaps, Warburg would leave of his own volition. I am inclined to think he would.

I am enclosing you a part of a letter I have written McAdoo on the subject, which I hope you will approve.

Affectionately yours,

——— ———.

Manchester, Mass., *August 27, 1915.*

Exhibit No. 2421

[From the House collection; custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

The White House,
Washington, Aug. 31, 1915.

Dearest Friend: I have your letter of the thirtieth of August, enclosing copies of letters from Sir Edward Grey and Bernstorff.

Of course, our reply to Germany's overtures of conciliation will have to depend a great deal on the terms in which they are actually made. Bernstorff has only stated the principle which will be accepted, and you know I trust neither his accuracy nor his sincerity. But it certainly does look as if a ray were opened out of our difficulties, so far as Germany is concerned.

That only makes more perplexing our questions as to how to deal with England, for apparently we have no choice now but to demand that she respect our rights a good deal better than she has been doing. Shall we insist that she open the door to neutral trade, to Rotterdam and Scandinavia, for example, which she is quite right in believing is in effect trade with Germany? Bernstorff is now demanding of us, in a note from his Government, that we insist on Germany's getting our cotton "for the use of her civilian population." Germany has at last come to her senses and is playing intelligent politics. She is seeking to put us into a position where we shall have to play to some extent the role of cat's-paw for her in opening trade to her.

* * * * * * *

You are right about the Reserve Board imbroglio. And I think McAdoo thinks so too, now. Indeed, I think he raised the question about the action of certain members of the Board about that meeting only to get a leverage for something bigger than the proper handling of acceptances and discounts.

* * * * * * *

If this cool weather takes a notion to stay, it would be jolly to have you come down some time next week, after your lease at Manchester has expired.

Always,
Affectionately yours,

(Signed) WOODROW WILSON.

Mr. EDWARD M. HOUSE,
Manchester, Mass.

Written by W. W.

EXHIBIT No. 2422

[Translation from]

SCHEDULE "C"

GUARANTY OF BANK OF FRANCE

Text of letter addressed by the Bank of France to the French Syndicate Manager:

LA DIRECTION GENERALE
DU CREDIT LYONNAISE,
Paris.

I have the honor of acknowledging receipt of your letter of August 17th, which reads as follows:

"We have been informed of negotiations which you have undertaken in the United States with the view of opening a credit having for its object to assure facilities of exchange to the French purchasers of American merchandise and products.

"We are glad to accept the role which you have reserved us in this operation and we are happy to put our cooperation to the disposition of the Bank of France for the realization of the contract herein prepared under its control and for its account.

"It is understood that the Bank of France will assume repayment either through exchange or this failing, by shipments of gold, and will assume all risks of the operation."

I have the honor to confirm to you our full agreement upon the contents of this letter.

Very truly yours,

G. PALLAIN, *Governor.*

[Memorandum]

FRENCH COMMERCIAL ACCEPTANCE CREDIT "A" $20,000,000

This credit was arranged under an agreement dated August 21, 1915, between Brown Brothers & Co. (the American managers) and 17 American banks and banking houses (the American syndicate) and the Credit Lyonnais (the French managers) and 10 French banks and banking houses (the French syndicate), under the guarantee of the Banque de France. The credit was arranged to provide dollar exchange to enable payments to be made to American exporters of merchandise. Under the terms of the credit, the 10 French banks drew a series of 90 day drafts on the American syndicate, totalling $20,000,000, these drafts being renewed three times, thus making the term of the credit one year. Each of the members of the American syndicate received commission at the rate of ¼% on the drafts accepted by them, and the agreement provided that the drafts were to be discounted at the rate of 4½%. Brown Brothers & Co., as the American managers received a management commission of ⅛%, out of which they were to assume the legal and other expenses of the American syndicate. The credit was secured by the deposit with the Farmers Loan & Trust Co., Paris, of French national bonds (Bons de la Defense Nationale).

The proceeds of the original series of drafts, totalling approximately $20,000,000, were credited on the books of Brown Brothers & Co. to Banque de France special account commercial export credit "A," Upon instructions of the Banque de France, either by cable or by letter through its representative in America, Brown Brothers & Co. made disbursements to other banks to put them in funds to pay suppliers of merchandise, and in some instances payments were made by Brown Brothers & Co. direct to the suppliers of merchandise against shipping documents, and in some instances merely against certification that they covered exports. The third renewal series of the accepted drafts matured on varying dates between September 5, 1916, and October 30, 1916, on which dates they were paid and retired.

AGREEMENT—COMMERCIAL EXPORT CREDIT "A"—$20,000,000—DATED NEW YORK, U. S. A., AND PARIS, FRANCE, AUGUST 21, 1915—BROWN BROTHERS & CO., NEW YORK, AMERICAN MANAGERS; CRÉDIT LYONNAIS, PARIS, FRENCH MANAGERS

$20,000,000 FRENCH COMMERCIAL EXPORT ACCEPTANCE CREDIT

Agreement made this twenty-first day of August, one thousand nine hundred and fifteen, between Brown Brothers & Company, of New York (hereinafter called the American managers), and J. P. Morgan & Company, National Bank of Commerce in New York, Guaranty Trust Company, American Exchange National Bank, Bank of New York, N. B. A., Bankers Trust Company, Brown Brothers & Company, Central Trust Company, Chase National Bank, Columbia Trust Company, Farmers Loan & Trust Company, Hanover National Bank, Mechanics & Metals National Bank, New York Trust Company, J. & W. Seligman & Company, Bank of America, all of New York; the Franklin National Bank, the Philadelphia National Bank of Philadelphia, and the Merchants National Bank of Boston (hereinafter called the American syndicate), the Credit Lyonnais, of Paris (hereinafter called the French managers), and Messieurs de Rothchild Frères, Crédit Lyonnais, Comptoir National d'Escompte de Paris, Heine & Cie, Hottinguer & Cie, Mallet Frères & Cie, de Neuflize & Cie, Mirabaud & Cie, Vernes & Cie and Banque Suisse et Française, all of Paris (hereinafter called the French syndicate).

Whereas French buyers of American merchandise and other commodities for export from the United States to Europe have found it difficult, owing to the extraordinary conditions now prevailing, to obtain satisfactory exchange to enable them to settle their accounts with the American merchants; and

Whereas the export of American merchandise and other commodities to Europe may be seriously curtailed unless adequate exchange facilities are provided; and

Whereas in order to provide additional exchange facilities for such French purchasers of American merchandise and other commodities, the French managers have formed said French syndicate, whose respective participations therein are more particularly enumerated in "schedule A" hereto annexed and made a part of this contract; and

Whereas in order to facilitate payments to American merchants, the American managers have formed the said American syndicate, whose respective participations therein are more particularly enumerated in "schedule B" hereto annexed and made part of this contract; and

Whereas it has been agreed that the American syndicate through the American managers shall open a commercial export credit for account of the French syndicate for the amount of the twenty million dollars ($20,000,000.00) upon the terms hereinafter stated; and

Whereas each member of the American syndicate, severally, and in proportion to its and their respective participations in the commercial export credit, has agreed to accept drafts drawn severally by the individual members of the French syndicate in proportion to their respective participations in said credit, and each said member of the American syndicate has further agreed to guarantee discount of said drafts to the extent of its and their participation at an agreed rate of four and one-half percent (4½%) per annum; and

Whereas letters have been exchanged between the French syndicate and the Bank of France, constituting a guaranty of payment in gold, if necessary, on the part of the latter, copies of which letters are hereto annexed, marked "schedule C";

Now, therefore, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

First. The commercial export credit hereinabove provided for, to be designated as "commercial export credit A", shall be for the aggregate amount of twenty million dollars ($20,000,000.00) for a period of approximately one year, and shall be availed of by drafts to be drawn at ninety (90) days' sight (with three (3) renewals thereof for like periods), by the several members of the French syndicate upon the several members of the American syndicate, such drafts to be forwarded to the American managers in eight (8) successive weekly installments of two and one-half million dollars ($2,500,000.00) each. The amounts of the drafts to be drawn by the members of the French syndicate, and the designation of the respective drawers and drawees shall be determined by the French managers, and a schedule of such drawings shall be forwarded to the American managers. Each member of the French syndicate shall draw by one or several drafts in such amounts respectively as the French managers shall determine, upon the members of the American syndicate severally to an aggregate amount in each installment in proportion to the participation of such members of the French Syndicate respectively in the total commercial export credit as specified in "schedule A" hereto annexed. The amounts of the drafts in each installment upon the several members of the American syndicate shall be in proportion to the participations of such members respectively, as specified in "schedule B" hereto annexed, in the said total commercial export credit. All drafts so drawn shall be forwarded by the French managers to the American managers, who shall, in due course, present the same for acceptance by the drawees therein named, and said drafts shall be accepted by said drawees as hereinafter provided. The first installment of said drafts shall be forwarded or delivered immediately after the execution hereof, and the following installments shall be forwarded or delivered weekly in like manner.

Second. Each member of the American syndicate severally and in proportion to its or their respective participation in said commercial export credit hereby agrees to and with each member of the French syndicate severally and to and with each other party hereto, to accept said drafts so drawn severally by the individual members of the French syndicate in proportion to their said respective participations in said credit forthwith upon presentation of such drafts as aforesaid; and also each member of the American syndicate severally to the extent of its or their participation covenants and guarantees with and to each other party hereto that the said several drafts so to be accepted shall be forthwith discounted in lawful money of the United States equivalent to gold coin of the United States of the present standard of weight and fineness, at the agreed rate of four and one-half per centum (4½%) per annum and that the proceeds of such discount shall be forthwith paid to the American managers.

Third. The American managers will place the proceeds of such discounts to the credit of the Bank of France in a special account to be kept by the American managers. Such funds shall be paid out from time to time upon written or cabled order, to be addressed to the American managers by the Bank of France, or by its designated agent or agents, but only in payment of American merchandise and goods, manufactured or not, as well as all produce, livestock, and other commodities of whatsoever nature to be exported and upon presentation of shipping documents or contracts for shipments or other American evidences of exportation to be delivered to the American managers at the time of payment and to be forwarded in due course by the American managers to the Bank of France. It is understood and agreed that the American managers shall be obligated to make such payments only against cash in hand. Therefore, no cheques, drafts, or cabled orders shall be drawn against the proceeds of any such drafts discounted and held upon such special account, until at least three (3) business days after the receipt by the American managers from the French managers of such drafts forwarded for acceptance and discount.

Fourth. Each member of the French syndicate, at least five (5) days prior to the maturity of each of the ninety-day drafts originally drawn hereunder, shall cause first renewal ninety-day drafts, drawn by the same drawers upon the same drawees, and for amounts identical with those of the drafts so maturing, to be delivered to the American managers through the French managers, and the American managers shall present the same in due course for acceptance to the drawees therein named.

Each member of the American syndicate severally hereby agrees to and with each member of the French syndicate severally and to and with each other party hereto, to accept such first renewal drafts so drawn severally by the individual members of the French syndicate forthwith upon presentation of such first renewal drafts as aforesaid; and each member of the American syndicate severally to the extent of its or their participation covenants and guarantees with and to each other party hereto that the said first renewal drafts so to be accepted shall be forthwith discounted in lawful money of the United States equivalent to gold coin of the United States of the present standard of weight and fineness, at the agreed rate of four and one-half per centum (4½%) per annum, and that the proceeds of such discount shall be forthwith paid to the American managers; and upon receiving the proceeds of such discount the American managers shall apply the proceeds towards the payment of the maturing drafts.

Each member of the French syndicate at least five days prior to the maturity of the first renewal drafts shall cause second renewal ninety-day drafts drawn by the same drawers upon the same drawees and for the identical amounts so maturing, to be likewise delivered to the American managers; and the American managers shall present such renewal drafts for acceptance in like manner; and each member of the American syndicate severally to the extent of its or their participation agrees likewise to accept said second renewal drafts and covenants and guarantees with and to each other party hereto that the said several second renewal drafts so to be accepted shall be forthwith discounted in lawful money of the United States equivalent to gold coin of the United States of the present standard of weight and fineness, at the agreed rate of four and one-half per centum (4½%) per annum and that the proceeds of such discount shall be forthwith paid to the American managers; and the American managers, upon receiving the proceeds of such discount will apply the proceeds thereof to the payment of the said first renewal drafts.

Each member of the French syndicate at least five days prior to the maturity of the second renewal drafts, shall cause third renewal ninety-day drafts, drawn by the same drawers upon the same drawees and for the identical amounts so maturing to be likewise delivered to the American managers; and the American managers shall present such renewal drafts for acceptance in like manner, and each member of the American syndicate severally to the extent of its or their participation agrees likewise to accept said third renewal drafts and covenants and guarantees with and to each other party hereto that the said third renewal drafts so to be accepted shall be forthwith discounted in lawful money of the United States equivalent to gold coin of the United States of the present standard of weight and fineness, at the agreed rate of four and one-half per centum (4½%) per annum, and that the proceeds of such discount shall be forthwith paid to the American managers; and the American managers upon receiving the proceeds of such discount will apply the proceeds thereof to the payment of the said second renewal drafts.

Fifth. It is further agreed that at the maturity of each third renewal draft, each member of the French syndicate shall respectively arrange that remittances through the Bank of France or otherwise shall be received by the American managers at least five (5) days prior to the maturity of each third renewal draft drawn by it hereunder of the equivalent of each maturity. Such remittances may be made by forwarding to the American managers drafts or cheques upon responsible American drawees, or by foreign exchange devices, provided an agreement as to price thereof can be reached, but all remittances so made shall be at the risk of the members of the French syndicate, respectively, and without responsibility to the American managers. In case exchange shall not be available for remittance, payment shall be made in New York to the American managers for account of the American syndicate of all maturing acceptances in gold coin of the United States or other bullion or gold coin equivalent in value to gold coin of the United States of America equal to the present standard of weight and fineness.

Sixth. It is mutually agreed between the American managers and the American syndicate, and between said parties alone, that each member of the American syndicate is to have the option of withdrawing its or their acceptance on paying forthwith to the American managers the proceeds of it at the agreed discount rate of four and one-half per cent (4½%) per annum, provided such member notifies the American managers of his election to do so at the time of his acceptance of each draft. The difference between the actual proceeds of discount of each installment of all the acceptances which are discounted through the American managers and the face of such drafts, less the agreed discount, is to be immediately remitted by the American managers, or paid by those members of the American syndicate to the American managers, whose acceptances are discounted through the American managers, and in proportion to their respective acceptances. All drafts discounted by the American managers will be at the best obtainable rates either at the Federal Reserve bank or in the open market.

Seventh. As security for the due performance of the covenants of this agreement, Bons de la Défense Nationale to the order of Brown Brothers & Co., American managers, in francs, payable in Paris on or about fifteen months from the date hereof shall be deposited with the nominee of the American managers in Paris for the account and subject to the instructions of the American managers to an amount equal to the face of this credit, the equivalent being ascertained by conversion of francs into dollars at the rate of five francs ninety centimes (fcs. 5.90) per dollar. Such deposit shall be made from time to time in installments at or before the forwarding of the drafts by the French managers to the American managers, and in amounts at least equal, at said rate of exchange, of five francs ninety centimes (fcs. 5.90) per dollar, to the amount of the drafts so drawn.

Upon full payment of all acceptances given under this contract all said bonds, save such as shall have been otherwise lawfully disposed of under this agreement, shall be returned to the French managers.

In case of the default by any member of the French syndicate in the execution of any of the clauses of this contract, the American managers shall have power of rehypothecation or sale of such and so many of the said Bons de la Défense Nationale as shall be approximately necessary to make good such default, applying the net proceeds of any such sale or rehypothecation to the payment of any acceptance then due, and upon final settlement hereunder, accounting to the French managers for any surplus so arising, provided that no sale of any of said Bons de la Défense Nationale shall be made either by the American managers or under or by reason of any rehypothecation of said bonds except at public sale in the cities of Paris, London, or New York, and upon ten days' previous notice to the French managers; such period of ten days to begin upon deposit of notice with a cable company in New York for transmission by them to the French managers and by delivery of said notice addressed to the French managers at the office of any person in the city of New York previously designated by the French managers to receive the same; and in any case of notice of sale for default as aforesaid, or under any rehypothecation the French managers or any member of the French syndicate shall have the right to pay the indebtedness for which any of the said bonds are rehypothecated or to make good such default and redeem such bonds at any time before such sale. The American managers or any members of the American syndicate may become the purchaser or purchasers of such Bons de la Défense Nationale, or any part thereof, at any such sale.

And provided further, that if any case of default under article fifth hereof shall be due to the nonarrival for any cause in New York of drafts, remittances, gold, or bullion, which have been seasonably forwarded by the French managers for transmission in the ordinary course to the American managers and notice of the forwarding of which shall have been given by the French managers by cable or otherwise, then no action for the sale of any of said bonds shall be taken until the expiration of twenty days from such default, except that ten days' notice of sale, expiring on or after the termination of said period of twenty days, may be given by the American managers to the French managers in the manner above provided.

If any member or members of the American syndicate shall default in the performance of any act which, by the terms of this agreement, it or they are required to do, then, in addition to any other remedies which the French syndicate or any of them or the French managers may have on account of such default, and if the drawer of the draft on which such default shall occur shall take up the same, the American managers shall forthwith, upon request of the French managers, return to the French managers so many of the Bons de la Défense Nationale then in their hands as shall bear the same proportion of the total amount then held by the American managers which the draft so taken up bears to the total amount of the acceptances then outstanding.

Eighth. Each member of the French syndicate will severally remit through the French managers to the American managers with all its original ninety (90) day drafts drawn hereunder, an acceptance commission amounting to one-fourth (¼) of one percent (1%) of the face of such drafts, and a like commission on each renewal draft, as well as the agreed discount at the rate of four and one-half per cent (4½%) per annum on such renewal drafts for payment by the American managers to the member of the American syndicate to whom the same may be payable by the member of the French syndicate remitting the same.

Ninth. The French managers and the members of the French syndicate hereby expressly waive the benefit of any moratorium or law of the Republic of France postponing or affecting in any way the obligation of the members of the French syndicate to provide at maturity for the full payment of each and every acceptance drawn hereunder in accordance with the terms of this agreement.

Tenth. It is expressly understood and agreed that all liabilities of and undertakings by the parties to this agreement are several and not joint, and that the several members of the American syndicate and of the French syndicate, respectively, shall none of them be answerable for any obligation, act, or default of any other member of said syndicate, nor except for its or their own obligation, act, or default, and nothing herein contained shall be construed as constituting a partnership between the members of said syndicates, respectively; and it is expressly declared that the French managers and the American managers shall not be answerable or responsible to any member of their respective syndicates for or on account of any act or omission of any agent or employee selected in good faith, nor for any error of judgment or mistake of law nor in any case except for its or their own individual wilful malfeasance or neglect.

Eleventh. It is understood and agreed that the French syndicate shall by a contract executed contemporaneously with these presents provide for payment to the American managers of the compensation for their services, and that the American managers shall and will assume and discharge all legal and other expenses of themselves and of the American syndicate arising under this contract.

Twelfth. This agreement may be executed severally by any of the parties in as many counterparts as desired, each of which so executed shall be deemed to be an original; and such counterparts, although separately signed, shall together constitute but one and the same instrument.

In witness whereof the copartnership parties hereto have signed these presents; and the corporate parties hereto have caused these presents to be signed by their respective officers thereunto duly authorized the day and year first above written.

Brown Brothers & Co.
(Hereinabove called the American managers).

Schedule "A".—*Names and participations of French syndicate*

Name	Participation
M. M. de Rothschld Frères	$3,600,000
Crédit Lyonnais	3,000,000
Comptoir National d'Escompte de Paris	3,600,000
Heine & Cie	1,400,000
Hottinguer & Cie	1,400,000
Mallet Frères & Cie	1,400,000
de Neuflize & Cie	1,400,000
Mirabaud & Cie	1,400,000
Vernes & Cie	1,400,000
Banque Suisse et Française	800,000

SCHEDULE "B".—*Names and participations of American syndicate*

Name	Participation
J. P. Morgan & Company, New York	$2,500,000
National Bank of Commerce in New York, New York	2,000,000
Guaranty Trust Company, New York	1,500,000
American Exchange National Bank, New York	1,000,000
Bank of New York, N. B. A., New York	1,000,000
Bankers Trust Company, New York	1,000,000
Brown Brothers & Company, New York	1,000,000
Central Trust Company, New York	1,000,000
Chase National Bank, New York	1,000,000
Columbia Trust Company, New York	1,000,000
Farmers Loan & Trust Company, New York	1,000,000
Hanover National Bank, New York	1,000,000
Mechanics & Metals National Bank, New York	1,000,000
New York Trust Company, New York	1,000,000
J. & W. Seligman & Company, New York	1,000,000
Bank of America, New York	500,000
Franklin National Bank, Philadelphia	500,000
Philadelphia National Bank, Philadelphia	500,000
Merchants National Bank, Boston	500,000

SCHEDULE "C"

GUARANTY OF BANK OF FRANCE

Text of letter addressed by the Bank of France to the French syndicate managers:

> LA DIRECTION GÉNÉRALE DU CRÉDIT LYONNAIS,
> *Paris.*
>
> J'ai l'honneur de vous accuser réception de votre lettre du 17 août, ainsi conçue:
>
> "Nous avons été mis au courant des négociations que vous avez poursuivies aux États-Unis en vue d'une ouverture de crédit ayant pour but d'assurer des facilités de change aux acheteurs français de marchandises et produits americains.
>
> "Nous acceptons avec empressement le rôle que vous nous avez réservé dans cette opération et nous mettons grâcieusement notre concours à la disposition de la Banque de France pour la réalisation du contrat ci-joint préparé sous son contrôle et pour son compte.
>
> "Il est entendu que la Banque de France assurera le règlement par les moyens de change, ou à défaut, par des remises d'or, assumera tous les risques de l'opération."
>
> J'ai l'honneur de vous confirmer notre plein accord sur le contenu de cette lettre.
>
> Veuillez agréer, etc.
>
> G. PALLAIN (*Gouverneur.*)

AGREEMENT—COMMERCIAL EXPORT CREDIT "A"—$20,000,000—DATED NEW YORK, U. S. A., AND PARIS, FRANCE, AUGUST 21, 1915—BROWN BROTHERS & CO., NEW YORK, AMERICAN MANAGERS; CRÉDIT LYONNAIS, PARIS, FRENCH MANAGERS

Agreement made this twenty-first day of August 1915, between Brown Brothers & Company, of New York (hereinafter called the American managers), and Credit Lyonnais of Paris (hereinafter called the French managers), and Messieurs de Rothschild Frères, Crédit Lyonnais, Comptoir National d'Escompte de Paris, Heine & Cie, Hottinguer & Cie, Mallet Frères & Cie, de Neuflize & Cie, Mirabaud & Cie, Vernes & Cie, and Banque Suisse et Française, all of Paris (hereinafter called the French syndicate).

Whereas the parties hereto have (together with the American syndicate) contemporaneously herewith entered into an agreement concerning a commercial export credit for the amount of twenty million dollars ($20,000,000) and to be designated as "commercial export credit A"; and it is provided by article eleventh thereof that the French syndicate shall agree to pay compensation of the American managers under said agreement, as herein set forth; and it is desirable also to arrange and agree concerning the other subjects herein contained.

Now, therefore, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

First. For the services of the American managers in forming the American syndicate, procuring the acceptance of drafts, making payments against documents and other services hereunder, each member of the French syndicate shall pay or cause to be paid to the American managers through the French managers a commission at the rate of one-eighth of one per centum on the face amount of the said respective drafts. Such payments shall be made on each installment of drafts simultaneously with the payment of the acceptance commission. In consideration of this commission, the American managers will also pay the legal and other expenses of the American managers and the American syndicate.

In case Brown Brothers & Co. are requested by the French managers to issue confirmed commercial credits, Brown Brothers & Co. shall be paid one-quarter (¼) of one per cent (1%) additional on all such credits issued.

Second. If the French managers from time to time before maturity of the credit, shall purchase American exchange in Europe, they may remit the same to the American managers in current account, all such remittances to be at the risk of the French syndicate. The proceeds of such remittances shall be subject to the order of the French managers by cheque or otherwise, and without any restriction or limitation as to use or otherwise. It is expected by the American managers that the French managers will wish to conduct all exchange operations in relation to the credit with the American managers through this account, but it is expressly understood and agreed, however, that the opening, conducting, and continuance of such current account is entirely optional upon the part of the French managers and is not a condition or consideration for said credit, and that said credit is in nowise dependent thereon; and, further, that no lien, security, trust, or pledge shall be created or exist upon or in respect of said current account, or any moneys or property covered thereby under or by reason of the said credit or of any obligations arising thereunder.

Third. Interest shall be allowed by the American managers on all balances in their hands, whether under this agreement or under said contemporaneous agreement covering said commercial export credit, at the rate of one-half (½) of one per cent (1%) below the official minimum discount rate of the New York Federal Reserve Bank for prime bank acceptances, with a minimum of one per cent (1%) and a maximum of three per cent (3%) per annum.

Fourth. This agreement may be executed severally by any of the parties in as many counterparts as desired, each of which so executed shall be deemed to be an original; and such counterparts, although separately signed, shall together constitute but one and the same instrument.

In witness whereof the copartnership parties hereto have signed these presents; and the corporate parties hereto have caused these presents to be signed by their respective officers thereunto duly authorized the day and year first above written.

BROWN BROTHERS CO.,
(Hereinabove called the American managers).

EXHIBIT NO. 2423

334.1–1915

FEDERAL RESERVE BANK OF NEW YORK,
July 9th, 1915.

MY DEAR MR. DELANO: Referring to our conversation of this afternoon in regard to a ruling by the Board as to the power of national banks to open a revolving credit, permit me to submit the following as illustrating the character of the transaction as explained to me by the bankers who are interested:

A, a New York bank, enters into a contract, either directly or through an agent, with a French bank, B, by the terms of which the French bank B is permitted to make drafts on the New York bank, payable at 90 days' sight, up to a total amount specified in the contract or letter of credit. The credit continues for its total amount for a period of 9 months and, therefore, the French bank is authorized to draw three drafts or three sets of drafts for the total amount of the credit before the eventual expiration of the credit and final payment of all drafts.

These drafts are to be negotiated in the market and the holder thereof is under no obligation to extend them after maturity. It is, in fact, a revolving commercial credit, as the proceeds of the drafts are to be used to pay for exports from this country against delivery of documents representing actual commodities, although security will be given for the payment of the drafts during the entire life of the credit.

You will observe that, as to the holders of the drafts, no obligation exists for renewal. As to the drawer and acceptor of the drafts, the credit extends for 9 months, and in this respect I believe a ruling should distinguish between the period for which the credit is to run and the statutory prohibition as to the length of time for which a national bank may accept. The contract might be construed as involving an arrangement for renewal between the drawer and the acceptor, but could not be construed as imposing any obligation to renew upon the holder of the draft or involve any violation of the Federal Reserve Act as to the length of time for which a national bank may accept any specific draft.

I should also call your attention to the custom which now generally prevails of opening commercial credits for a period of a year or for an indefinite period, subject to termination by either party. Such an arrangement is necessary in the case of business conducted with the East, where distances would not permit of opening special credits for special transactions. In my own experience in the exportation of copper from Chili, importation of potash from Germany, and other like commodities, these credits must be opened for periods of a year or even longer in order to enable a bank to meet the reasonable requirements of its customers.

In the case under discussion I understand the credit is to be used for the purpose of paying for all sorts of merchandise and goods exported from this country to France, and the fact that the proceeds will be used to take up the documents evidencing the actual shipment of goods would seem to involve a necessary compliance with the statute and regulations of your Board, although the shipper does not draw the bill, which is drawn by a banker in behalf of the importer of the goods.

Thanking you for your consideration of this matter, I beg to remain,

Very truly yours,

/s/ Benj. Strong, Jr., *Governor.*

Hon. F. A. Delano,
Federal Reserve Board,
Washington, D. C.

BSJr/VCM-12.

Exhibit No. 2424

334.1-1915

[Note.—The roman type represents the letter as originally written. The italic type in parenthesis represents the proposed inserts by Mr. Warburg. The linetype represents words, sentences, or letters stricken out by Mr. Warburg.]

July 15, 1915.

Mr. Benjamin Strong, Jr.,
Governor, Federal Reserve Bank,
New York City.

My Dear Mr. Strong: The Federal Reserve Board and the Comptroller of the Currency have considered your letter of July 9th in which you ask whether a national bank can enter into an arrangement by which a line of acceptance credit may be given for a period of nine months, and individual drafts to be drawn upon the accepting bank payable at 90 days sight up to the total amount specified in the letter of credit.

Assuming that the drafts drawn are to be used to take up the documents evidencing an actual shipment of goods from the United States to foreign countries, the Board and the Comptroller find no prohibition of law against such an arrangement being entered into. It is, of course, to be understood that each bill accepted shall be subject to the terms and conditions of the National Bank Act, and section 13 of the Federal Reserve Act, as amended, and, further, to section 5200 of the Revised Statutes, with relation to the 10% limitation.

I would also state that it is the opinion of the Board and the Comptroller that no contract could be entered into by the member bank accepting them, which would at the time of accepting or offering to accept such drafts, provide for the renewal [*by the holder*] of ~~the~~ [*any specific*] drafts drawn under said letter of credit [*beyond a period of six months*]. Should, however, the accepting bank subsequently decide to arrange with the drawer for ~~a renewal of any such drafts~~ [*the acceptance of new drafts at or*] before the time of payment, [*of the old draft*] no legal objection is perceived to their doing so, it being understood, of course, that when the drafts have once been negotiated in the market, the holder, ~~other than the drawer or acceptor,~~ will be under no obligations to extend them after maturity.

~~It is understood that your letter is confined to the question of power in a National bank to enter into such credit arrangements, and that it does not involve a determination of the question whether such acceptances could be rediscounted for the holder at a Federal Reserve Bank. The Board naturally prefers to give no expression of opinion on this question until and unless it is brought before it for determination, but it may be assumed that the Board will not apply conditions substantially different in requirements from those now in force. Such an application, however, might involve not only questions of law, but of policy as well.~~

Very truly yours,

(Signed) F. A. Delano, *Vice Governor.*

The foregoing letter was prepared by Governor Hamlin but he left before it was ready for his signature.—F. A. D.

Exhibit No. 2425

[Private]

July 10, 1915.

Benj. Strong, Jr., Esq.,
Governor, Federal Reserve Bank of New York,
New York, N. Y.

Dear Ben: In further references to our conversation with regard to a proposed commercial export credit which my firm is negotiating at the request of a number of the strongest private banks and institutions in France, and, in reply to your inquiry, I advise you as follows:

French buyers of American merchandise and other commodities for export from the United States to Europe have found it difficult, owing to the extraordinary conditions now prevailing, to obtain credits or satisfactory exchange to enable them to settle their accounts with American merchants. On the other hand, American merchants have not been willing to sell to French merchants in the usual way because of the extraordinary exchange conditions; in consequence, exports of American merchandise and other commodities to Europe have been, and may continue to be, seriously curtailed unless adequate credit and exchange facilities are provided.

Therefore, in order to facilitate payments to American merchants we have undertaken to form a syndicate of banks, bankers, and trust companies in this country to open a commercial export credit for a round amount.

Each member of the American syndicate, severally and in proportion to his respective participation in the commercial export credit, agrees to accept drafts drawn severally by the individual members of the French group, and my firm undertakes, when the proceeds of these drafts have been received, to hold it on deposit upon special account and to disburse it only in payment for American merchandise and other commodities to be shipped abroad against shipping documents and other satisfactory evidences to be delivered to us at the time of payment, and thereafter forward in due course to the drawers of the drafts. We undertake that no part of the proceeds of the acceptances shall be used for the payment of the acceptances at maturity. The credit is not for the purpose of financing the sale of war materials to the French Government.

The credit is for a full period of two hundred and seventy days, but, because of the greater availability for discount of ninety day sight drafts, the credit is to be availed of in three drawings of ninety days sight each. At the maturity of each of these ninety day sight drawings, the acceptances will be paid in cash from funds provided from the discount of new ninety day sight drafts, which, in turn, will be discounted in the open market. At the maturity of the credit the acceptances will be paid in New York in gold or in New York funds. The above machinery is customary in the issue of commercial credits. It is in terms a revolving credit for two hundred and seventy days. The holder of an accepted draft is under no obligation to renew or extend the draft he holds. It will be paid in cash.

Yours very truly,

(Signed) BROWN BROTHERS CO.

("Exhibit No. 2426" appears in text on p. 8230)

EXHIBIT No. 2427

FEDERAL RESERVE BOARD,
Washington, July 28th, 1915.

MY DEAR MR. STRONG: At the informal conference held in New York at the Federal Reserve bank on Friday, July 17th, at which Messrs. Delano, Harding, Warburg, and myself were present, the letter addressed to you by Vice Governor Delano under date of July 15th, on the subject of arrangements by national banks for lines of acceptance credit against which drafts are to be drawn, was considered; and in view of the discussion then held, this letter is sent to you as stating a little more clearly and fully the views of the Board.

Assuming that the drafts are to be used to take up documents evidencing an actual shipment of goods from the United States to foreign countries, the Board and the Comptroller find no prohibition of law against such an arrangement being entered into. It is, of course, to be understood that each bill accepted shall be subject to the terms and conditions of the National Bank Act and section 13 of the Federal Reserve Act, as amended, and, further, to section 5200 of the Revised Statutes in relation to the 10% limitation.

The reference to the 10% limitation under section 5200 of the United States Revised Statutes is not intended to apply to the mere acceptance of a bill of exchange drawn under such credit arrangements; on the contrary, the reference is solely to the case of a bill duly accepted and actually paid by the acceptor, to whom the drawer has failed to furnish funds before the date of maturity. We are advised by our counsel that acceptances do not fall within the limitations of section 5200 but that when paid by the accepting bank, assuming that funds have not been furnished by the drawer, the bank is then put in the position of having made a loan to the drawer, which loan would fall within the limitations of said section 5200.

In this connection I would state that it is the opinion of the Board and of the Comptroller that no contracts could be entered into by any member bank accepting drafts which would at the time of acceptance obligate such bank to accept a new draft against the same transaction if the date of maturity of the new acceptance is more than six months from the time of the original acceptance. Should, however, the accepting bank decide to make independent arrangements with the drawer for the acceptance of new drafts at or before the time of payment of the old drafts no legal objection is perceived to their doing so, provided such arrangement is made subsequent to and independent of the original contract of acceptance; it being understood, of course, that when drafts have once been negotiated in the market the holder will be under no obligation to extend them or to take new acceptances for them after maturity.

In the above paragraph the Board desires to make it clear that a national bank cannot lawfully enter into a contract obligating it at maturity of any specific draft to accept a new draft, which contract would obligate such bank at the time of the original acceptance to renew its credit for a period aggregating more than six months. Such an agreement, whether collateral or on the draft itself, would *in substance* amount to the acceptance of a draft having more than six months to run.

It is understood that your letter of July 9th is confined to the question of the power of a national bank to enter into the credit arrangements described therein, and that it does not involve the determination of the question whether the resulting acceptances could be rediscounted for the holder at a Federal Reserve bank. That is a question primarily for determination by the officers and directors of the Federal Reserve banks under the general instructions or regulations imposed by law and the administrative orders of the Federal Reserve Board. It goes almost without saying that the Board expects these officers and directors to act with proper caution and discretion in this as well as in other matters. Regulations, which possibly may not be sufficiently complete to cover all cases, have already been issued by he Federal Reserve Board, but it may be assumed that should it be necessary to issue new or supplementary regulations, the Board will not, without previous notice, apply conditions substantially different in requirements from those now in force.

Yours very truly,

(Signed) C. S. HAMLIN, *Governor.*

Mr. BENJAMIN STRONG, Jr.,
Governor, Federal Reserve Bank,
New York City.

EXHIBIT No. 2428

Memo for Governor Hamlin.

Attached are copies of Mr. Warburg's letter. The fourth copy I send, thinking you may wish it for Governor Strong.

L. G. WATERS.

[Copy]

[In pencil: Dr. Miller.]

AUGUST 2, 1915.

DEAR GOV. HAMLIN: Thank you very much for your letter of the 29th.

I am sorry to see from the papers that you are subjected to a pretty tough spell of heat. But you told me that you are thriving when the thermometer shows a temperature of 105½ degrees in the shade. I hope you will take a short holiday and cool off a little. Give my best regards to the Governess.

Thank you for sending me the copy of your letter to Gov. Strong. I suppose you were joking when you wrote that "you think" it covers the suggestions made by me at the conference in New York. Indeed, it does not! It expresses just the contrary, and I am sorry to have to express my emphatic dissent.

For simplicity's sake I return the copy of the letter to Gov. Strong and shall mark by numbers the paragraphs I intend to discuss.

(1) "Assuming the drafts are to be used *to take up documents*"—they need not take up documents, but the proceeds must be used for the shipment of certain goods. This, however, is not important.

(2) If section 5200 does not apply to "acceptances", the reference to it is most confusing. You say, "It is to be understood that each bill accepted shall be subject to * * * section 5200", and then you proceed to state that the section does not apply to "acceptances" but only to loans (if the drawer does not cover the acceptor at maturity, the acceptance must be paid all the same by the drawee and, therefore, the acceptance is dead and converted into a cash advance). The "acceptance" is, therefore, *not* subject to 5200. The bank, in case the acceptance should not be covered by the drawee, would be in the position of a natl. bank having acquired mortgages on stocks by the foreclosure of a loan. It has to take prompt steps to dispose of these assets, and so has the ex-accepting bank the duty to reduce the loan as speedily as possible. But, to my mind, it is confusing to say that the "accepted bill" is subject to section 5200. Has Mr. Cotton seen the letter? He was originally consulted, and I think it might have been done to advantage.

(3) The doctrine propounded in this paragraph is just the reverse of Mr. Cotton's opinion and of what we agreed upon in New York when four members were present.

A-Shing in China wants to send silk to New York, the goods to go by sailing vessel and to be warehoused in New York upon arrival and, in case they should not be sold at maturity of acceptance, the bill to be renewed for another 90 days. A-Shing may not dare to make the consignment unless he had a contract for the renewal. A bank may make a loan for any time, a bank could agree to accept for six months and then carry the loan as a cash advance for another six months. *So there is nothing to prevent the commitment*, and it is only the question of form. The law says "any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run." That is as plain as can be. The draft or bill of exchange (the specific piece of paper!) must not have more than six months to run. But there is not a word in the act that a bank must not contract to accept a renewal draft. The discount market was to be kept clear of anything in excess of six months, because banks are to remain liquid and acceptances ought to have the character of the most liqiud assets. But that has nothing to do with the contract between drawer and drawee. Moreover, you say they may renew, but they must not say so in advance. That looks weak, does not help anybody, and hurts business. Moreover, there is no warrant for this restriction, and State banks would again have the advantage against national banks.

(4) It looks to me as if a most important principle was involved here. Do we want to throw away our right to holding a F. R. bk. to account if it takes acceptances that it should not take? If we want to retain that right, we must answer questions of general principle. I should think the F. R. bks. would eagerly accept this portion of your ruling!

I cannot help feeling that this letter to Gov. Strong must represent some unfortunate compromise of colliding opinions. I think it a very unsatisfactory document and hope some way may be found to substitute *one* clear letter for the two so far written. Why not get Mr. Cotton to help the Board in this matter?

Pardon my frankness, but I deem it the duty of members to give each other their real thoughts, and I trust you will never hesitate to write me with equal brutal frankness.

I read your letter to Mr. Fowler and am in entire accord with the same.

* * * * * * *

Always faithfully yours,

(Signed) Paul M. Warburg.

Hon. Charles S. Hamlin.

Exhibit No. 2429

334.1–1915
[Notation in ink: Dr. Willis.]
[Notation in pencil: Warburg.]

Sunday, Aug. 8, 1915.

Dear Friends: I just received Dr. Willis' notice of the meeting called for the 16th to act upon counsel's opinion covering revolving letters of credit.

Yesterday I received a letter from Mr. Harrison sending me a copy of this opinion and I wrote him at once that I am in the fullest accord with it. Inasmuch as Harrison states that the Board unanimously approved the letter—and inasmuch as I voted already on the very same question at the informal meeting at New York and have since expressed my views in writing—I take it that I am notified of this meeting as a matter of form, in accordance with the wish expressed by Secretary McAdoo, but that there is no necessity for me to be present. If I am mistaken in this, may I ask to be informed by wire?

There are two questions involved: The one is the general question of the power of a member bank to enter into a contract obligation to renew an acceptance credit even for a longer period than six months. That is plainly a question of interpretation of law, one upon which there can be hardly any doubt, one upon which counsel has now given an opinion, satisfactory, as I understand, to all members of the Board, and certainly to a majority, and all the Board is about to do in this respect is to adopt its counsel's opinion (including Mr. Cotton).

The second question involved is the particular application of the ruling to the so-called Brown credit. Concerning this I understand, as Harrison states, that you, Dr. Miller, have some apprehension lest a revolving credit might in substance amount to a loan granted to a foreign government.

This, however, has nothing to do with the first question, viz, the broad power of renewing a credit, but only with the question of whether the proceeds of the drafts are bona fide employed for the purpose of financing the importation or exportation of goods. In this connection it was stated to Mr. Strong that the Board thought it necessary, in view of the existing regulation, that the accepting banks before actually accepting should be notified (by the managers of the syndicate) of the goods to be purchased with the proceeds of the draft and that the drafts must not be renewed after the goods have been shipped. This would ensure the legitimate use of the credit. It was furthermore stated to Mr. Strong that no government must appear as a party to the contract or guarantor, but that the credit was to be given to private concerns. (Finally Browns had assured Mr. Strong that no war materials were to be financed by this credit arrangement.) If the restrictions as here stipulated are adhered to, there cannot be any fear that the credit should amount to "a permanent foreign government loan." However, the second question is one of application and has nothing to do with the *broad question of interpretation* on which the Board will act on the 16th, and which, I am sure, will be dealt with quite independently.

As to the particular Brown question, the Board had not been asked to give a ruling, but quite the contrary, Mr. Strong had suggested that this question be left within the New York bank's discretion upon his assurance that he fully understood our views.

If there is a necessity for my presence, I shall of course come, and as stated above, in that case I shall be grateful for a wire from you. If I do not hear from you I shall take it that Mr. Willis' letter is to be considered only as a formal notification.

With kindest regards for the entire Federal Reserve family, and hoping that the heat has subsided, I am

Always faithfully yours,

(Signed) PAUL M. WARBURG.

EXHIBIT No. 2430

[Memorandum]

At various conferences with the Federal Reserve Board, and particularly with Mr. Warburg, it has been informally understood that, while the Board does not care to make any formal ruling, the transaction described in the attached letter of Brown Brothers & Co., dated July 10th, would not meet with objection on the part of the Federal Reserve Board. They advised us, however, that it would be necessary to confer with the Comptroller of the Currency, so as to ascertain definitely whether he found any objection to a national bank accepting drafts under a revolving credit of this character, which continued for a period of nine months.

I had a long talk with the Comptroller on this subject yesterday, Deputy Comptroller Kane being present at the time. After explaining the importance of developing this character of credit in order that our crops and other exports might move promptly to foreign markets, the Comptroller said that while he was, also, unwilling to make a definite and fixed ruling on this point, he did not propose to raise any objection to this transaction. He was inclined to chaff a bit and avoided making any definite commitment; as he expressed it, "he felt assured that neither I nor any of the officers of the member banks would go to jail if the business was transacted", and I told him, therefore, that without any formal ruling being made, which I thought at this time would be inadvisable, we would inform member banks that inquired, that there seemed to be no objection to their doing this business. The conclusion arrived at by the Federal Reserve Board when I met with them on the 28th of June was, that while they did not care to make any definite ruling at that time, they would informally regard these transactions as eligible for our purchase in our open-market transactions.

VCM.

EXHIBIT No. 2431

334.1–1915

AUGUST 6, 1915.

DEAR MR. SECRETARY: After a long discussion, the Board, this morning, voted to send to you and to Mr. Warburg the enclosed tentative draft of letter for you to comment on and criticise. I also enclose a copy of the opinion given by Mr. Harrison. I feel that this is now in proper shape. Mr. Miller does not agree with us and he feels, I am inclined to think, that neither the national banks nor the Federal Reserve banks should finance any of those war material exports, or any other exports which are ultimately destined to a foreign government as purchaser. He bases his opposition on the ground that the ultimate security for the acceptors will probably be some form of government notes, which may not be paid at maturity and which may have to be extended until they approach a long-term obligation. He also apparently is inclined to the belief that we ought not finance any transaction which does not liquidate itself, that is, which does not turn into money which can be given by the drawer to the acceptor to meet his obligation. I asked him to consider this case:

Suppose I go to a manufacturer of guns and buy a gun intending to shoot someone with it. I think there is no doubt that my note given to the manufacturer for that gun would be held to be commercial paper under the Federal Reserve Act. This shows that although the gun may not go into further process of manufacture, and might be consumed or destroyed, that fact does not necessarily tend to make the paper based upon it ineligible, either in domestic or foreign transactions.

I think, at the same time, that it might be well to point out, as I have done in this suggested letter, that the bank should be cautious not to overextend in these acceptances.

Mr. Miller also says that he feels that you ought to come to Washington when this matter is finally voted upon, as also Mr. Warburg. If, however, you agree in principle, I do not see any necessity of your coming on. I think Mr. Warburg will surely agree with this note, because he severely criticised our note of July 28th for not going far enough on the lines now covered by the new tentative letter.

I enclose a copy of his letter to me on this subject, and also a copy of Mr. Harrison's opinion.

Very sincerely yours,

(Signed) C. S. Hamlin.

Hon. William G. McAdoo,
North Haven, Maine.

[In pencil: Documents referred to above were sent by Dr. Willis.]

The following documents (Exhibits Nos. 2432 to 2451) complete the record in regard to acceptance transactions during 1915. It will be observed from Exhibit No. 2439 that Mr. Warburg's opposition was neither to acceptances as such nor to belligerent financing, but to the disguising of finance drafts as acceptances. Exhibit No. 2451 cast an interesting light upon how difficult it was to develop American acceptances for legitimate business not connected with the military financing of the Allies or in conflict with established British financial practice. Further documents bearing upon this point will be found among Exhibits No. 3639 to 3644. The documents dealing with acceptances during 1916 and 1917 will be found among Exhibits Nos. 3557 to 3658 and Exhibits Nos. 3864 to 3899. No testimony was taken on either subject. (See text, p. 8237.)

Exhibit No. 2432

Federal Reserve Board,
Washington, August 11, 1915.

Mr. Benjamin Strong, Jr.,
Governor, Federal Reserve Bank of New York,
New York City.

Dear Sir: The Federal Reserve Board and the Comptroller of the Currency have further considered the question propounded in your letters of July 1st and July 9th and elaborated in your memorandum submitted at their conference with you on the 4th instant, in which an answer is requested as to whether a national bank can enter into an agreement under which a line of acceptance credit may be given by such bank, the credit extending for a period of nine months, but the individual drafts to be drawn upon the accepting bank, to be payable at ninety days' sight, and not to exceed the total amount specified in the letter of credit.

It is the opinion of the Board and of the Comptroller that a national bank is authorized by section 13 of the Federal Reserve Act to enter into an agreement having more than six months to run, by the terms of which it obligates itself for a period of time specified in the agreement, to accept drafts drawn upon it, provided such drafts grow out of transactions involving the importation or exportation of goods and that the individual drafts have not more than six months' sight to run.

The restrictions of section 13 of the Federal Reserve Act would, of course, limit the total amount of acceptances made by any one bank, including those described, to an amount equal in the aggregate to not more than one-half of the paid up and unimpaired capital stock and surplus of the member bank except that by authority of the Federal Reserve Board, under general regulation of the Board, a member bank may accept for an amount not to exceed the amount of its capital stock and surplus.

It is, of course, understood that the ten per cent limitation imposed by section 5200 of the United States Revised Statutes is not intended to apply to the mere acceptance of a bill of exchange drawn under credit arrangements authorized by section 13 of the Federal Reserve Act, but the Board is of the opinion that the provisions of section 5200 of the United States Revised Statutes would apply to the indebtedness arising between the drawer of the bill and the accepting bank in case the drawer failed to furnish funds with which to meet the acceptance at maturity.

It should also be understood that the limitation of six months specified under section 13 of the Federal Reserve Act applies to the draft but is not construed by the Board as applying to the agreement or letter of credit under which the draft is drawn. This limitation of six months does, however, apply to specific drafts drawn under such agreements or letters of credit, and consequently, if the terms of the agreement or letter of credit imposed upon the holder for value of the draft any obligation to renew such draft at maturity so that the original draft with the renewal thereof would remain an obligation of the accepting bank for a period exceeding six months, such agreement would be ultra vires.

You will observe the distinction which the Board desires to emphasize in connection with this ruling, to wit: While a letter of credit or credit agreement may lawfully be made by a national bank which will extend by its terms for a period exceeding six months, such agreement must not be of a character as will impose upon the holders of drafts accepted thereunder any obligation to renew such drafts so that the period of acceptance shall exceed six months in duration as to any specified draft.

So far as the answer to this question is concerned, this letter will be considered as a modification of our letter of July 28th.

Very truly yours,

(Signed) C. S. HAMLIN, *Governor.*
(Signed) SHERMAN ALLEN, *Assistant Secretary.*

EXHIBIT No. 2433

AUGUST 27, 1915.

MY DEAR GOVERNOR HAMLIN: You will receive with this our separate letter in respect of regulation J, and possible amendments that may be considered desirable in view of the existing foreign exchange situation.

As bearing upon this matter, I now write to advise you that we have been requested to advise certain New York bankers whether acceptances drawn under commercial export credit A, negotiated by Messrs. Brown Brothers & Company of this city, are eligible for rediscount with this institution and whether they are eligible for purchase by this bank under section 14 of the Federal Reserve Act.

After the transaction was concluded, Messrs. Brown Brothers & Company furnished me with a copy of the agreement for our confidential information and I have obtained another copy to send you for examination in connection with the question of eligibility.

I am also advised that a further credit amounting to about $23,000,000 is now in the course of negotiation and it becomes highly important that the member banks of this district be advised as promptly as possible whether drafts drawn under credits of this character will, in fact, be eligible for rediscount or purchase under sections 13 and 14. May I, therefore request that this matter be given the early consideration of the Board and should there be any doubt of the eligibility of these drafts or the wisdom of modifying regulation J so as to remove any doubt as to their eligibility, I trust you will permit me to meet with the Board and discuss the matter.

Very truly yours,

——— ———, *Governor.*

Hon. C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BS Jr/VCM-3.

Exhibit No. 2434

Federal Reserve Bank of New York,
Aug. 11, 1915.

My Dear Counselor: Please accept this as a belated but nevertheless very hearty expression of my appreciation of your hospitality, and will you not also pay my respects to your mother and sisters and tell them I enjoyed my brief visit with them very much indeed?

There was not a great deal of news at the office until yesterday, which developed a number of interesting matters. The proposed action by the Federal Reserve Board on the French transaction—in other words, the ruling as to revolving credits—did not come forward, but Harding turned up here the day before yesterday having been summoned by Secretary McAdoo to a meeting at New York. The Secretary was very insistent about the necessity for an immediate ruling and, as the result of a brief meeting I had with him and with Harding Monday noon, a special meeting of the Federal Reserve Board was called to be held at this office yesterday. They were all here, including Willis, with the exception of McAdoo and Delano. It took all day to have action but, finally, the enclosed letter was agreed upon, and is to be finally signed and sent to me at once from Washington. I shall be glad to have your observations; in fact, I missed your counsel in this matter very much as Mr. Harding wanted me to draft the letter, which I did without the benefit of your skill in the use of language.

I am sorry to say that two members of the Board were sternly and positively opposed to this action and one of them undertook to introduce every objection that could be raised, technical and otherwise. Finally the letter was delivered to me in this form in advance of final advice from Washington and I was authorized to read it to Mr. Brown, which I have done. I advised Mr. Brown that this does not dispose of the question of eligibility, and I have verbally notified the Board that, having now disposed of the question of the right of a member bank to accept renewal drafts, I was proposing to take a fresh hitch and go to the mat with them on the question of eligibility. We have got to have the question settled, and Governor Hamlin is disposed to call a special meeting of the Board, to be held in Washington when Secretary McAdoo returns, and have the matter out. I don't want to bring matters to this crisis, however, until we are more fully prepared. We should have a careful and conservative brief covering the law on this point, and I think we should make sure that Mr. Cotton entertains the same view that we do on this subject of eligibility.

Lest you may think me very careless in money matters, I write now to remind you that I owe you some money which will be promptly paid whenever you advise me of the amount.

I hope you have a bully holiday.

Very sincerely,

(Signed) Benj. Strong, Jr.

James F. Curtis, Esq.,
% Mrs. G. S. Curtis,
Manchester, Mass.

BSJr/PE
Enc.

EXHIBIT No. 2435

[Excerpt from the minutes of the Federal Reserve Board, meeting of September 1, 1915]

The Governor of the Board presented a letter from Governor Strong of New York asking for a definite ruling as to the eligibility of bankers' acceptances taken under special contract involving the renewal of such acceptances, and also presented a proposed amendment to regulation J. The matter was taken under advisement, pending a later meeting.

EXHIBIT No. 2436

BANKERS' ACCEPTANCES

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from the minutes of the Federal Reserve Board, meeting of September 2, 1915]

Discussion of the proposed regulation with reference to the establishment of a special rate for commodity paper and the issuance of a regulation relating thereto was begun. Mr. Warburg expressed the view that it would be to the advantage of the Federal Reserve System if it were permitted to develop its facilities of rediscounting between districts. Some of the Federal Reserve banks had difficulty in earning their operating expenses and would welcome an opportunity of rediscounting this commodity paper for the southern banks. He was confident that at 3% these rediscounts could be made (possibly even lower) and that thus there was an ample margin for the southern producer to receive credit facilities at 6%, the member bank receiving rediscounts at 3½% or 4%, whatever rate the southern Federal Reserve banks would decide upon. The result to the producer would be the same but the free development of the Federal Reserve System would not be interfered with. If the desired result would not be achieved it would be time for the Secretary then to deposit his funds. Of course, it was desirable to have fiscal relations established with the Treasury in all the Federal Reserve banks, but that was not the question involved here, but a deposit of large sums for a particular purpose. He urged this view upon the Secretary of the Treasury.

After the subject had been further fully canvassed, Mr. Williams offered the following revised draft of the proposed regulation:

REGULATION J, SERIES OF 1915 (SUPERSEDING REGULATION D OF 1915)

* * * * * * *

Mr. Warburg offered as an amendment to the draft of Mr. Williams, the same to take the place of provision (b) therein, the following:

The maximum rate on the original discount of commodity paper as a condition of eligibility of rediscount at the special rate herein authorized, shall be established by the Federal Reserve banks subject to the review and determination of the Federal Reserve Board."

On being put to a vote, Mr. Warburg's amendment was declared lost.

The question recurring on the original proposal of Mr. Williams, the revised draft of the regulation was declared adopted, Mr. Warburg voting in the negative.

The secretary of the Board was directed to telegraph to the Federal Reserve banks of Atlanta, Dallas, and Richmond, giving the substance of the regulation as thus adopted and asking that they make any suggestions that might occur to them, especially inquiring of Atlanta whether that bank adhered to the rate of 3½% on commodity paper proposed by it in its regular discount rate notice for the week. It was agreed that the replies of the several banks, and the text of the regulation as tentatively adopted, should be taken up for consideration at a meeting to be held on the morning of September 3, the whole matter to be disposed of, if possible, at that time.

The secretary prepared telegrams in accordance with the instructions thus conveyed, submitted them for approval, and ordered them sent.

The revision of regulation J, relating to bankers' acceptances, was taken up for consideration and amendment, and the Secretary of the Treasury presented a proposed revision of the Board's existing regulation prepared by Governor Strong, of the Federal Reserve Bank of New York. Mr. Warburg stated that it would be advisable that the whole question of the relationship of the Board and the Federal Reserve banks on the one hand, and foreign governments or governmental institutions or those acting for them on the other, should be referred to the State Department in order to obtain a clear expression with reference to the attitude of the Government on any questions that might involve the neutrality of the United States.

Commenting on the suggestions of Mr. Warburg the Secretary of the Treasury said that he did not think any questions of neutrality were involved in the proposed regulations concerning bankers' acceptances; that whatever action the Board might take would have reference to the carrying out the purposes and objects of the Federal Reserve Act; that the Board had no right to adopt regulations which discriminate against or in favor of any part of the lawful commerce of the United States, and that counsel of the Board had so advised. That the financing of our lawful commerce was one of the purposes of the Federal Reserve Act; that if any questions of neutrality should be raised, they would relate to specific transactions in which the Federal Reserve banks or member banks proposed to engage; that it seemed to him that in all such cases the proper course for the banks would be to apply to the State Department, whose function it was to pass upon questions involving neutrality.

Governor Hamlin offered and Mr. Williams seconded a motion that the Strong revision, or draft, of the acceptance regulation be adopted as it stood, with the exception of the proposed changes in the last paragraph on page 4, making the proposed draft read as follows:

"Federal Reserve banks may under section 14 of the act purchase acceptances in the open market without regard to the requirements and limitations hereinbefore stated, provided, however, that no Federal Reserve bank shall purchase the acceptance of a 'banker' other than a member bank which does not bear the indorsement of a member bank, unless a Federal Reserve bank has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board."

Without further discussion the motion was tabled until the next meeting of the Board.

Exhibit No. 2437

Bankers Acceptances

REGULATION—OPEN MARKET REGULATION—GENERAL

[Excerpt from the minutes of the Federal Reserve Board meeting of September 3, 1915]

Mr. McAdoo called up for further discussion regulation J, which had been made a special order at the meeting of Thursday afternoon, September 2d, there being before the Board the motion of Governor Hamlin for the general adoption of Governor Strong's proposed changes in the regulation. Mr. Warburg laid before the Board a memorandum in which he discussed the proposed changes put forward by Mr. Strong as follows:

"MEMORANDUM COVERING GOVERNOR STRONG'S PROPOSED AMENDMENT

"There is no objection to striking out the word 'banking' under IV (b).

"IV (c) The proposed amendment, particularly when considered in connection with the amendment of IV (f), goes much further than appears to be required for the Brown transaction. This is the case in two respects: first, by eliminating the words 'commercial, industrial, or agricultural concern' and substituting therefor the words 'purchaser or seller or other person' directly connected with the importation or exportation, the door is thrown open to drafts drawn by foreign governments or their representatives. Paper of this kind has generally been held as not desirable paper for banks of the character of a Federal Reserve bank. It would particularly be the case where the right is given to renew these bills indefinitely and where, as proposed under (f), other securities—that is to say Government bonds or other stocks and bonds—may be deposited as *collateral*, not as substitution for the original shipping documents but as collateral right from the beginning. In other words, the Argentine Government might deposit its Government bonds with some American bank and draw upon the American bank for three months, continuing this transaction indefinitely, the proceeds of the first draft having been sold in the market by someone who used these proceeds for the payment of goods to be exported. Second, by striking out the paragraph following the word 'banker', clause (c) a similar situation is being created with respect to a bank which is drawing the bill. As Mr. Strong words this paragraph, the banker need not have any connection at all with the purchaser of the goods or with the transaction involved. Just as outlined in the case of the Argentine Government, any banker in the United States or in a foreign country could draw upon an American banker, depositing any kind of collateral and renewing the bills indefinitely, provided the original proceeds had been used by someone in payment of goods to be imported or exported.

"I think it is most important that the Board should clearly recognize the bearing of the amendments here proposed.

"The amendment as proposed by me provides for all necessities of the Brown credit, but its purpose is to preserve the connection with the original transaction of importation or exportation so that plain finance drafts secured by bonds and stocks be eliminated, as to my mind this was the intention of the act.

"As to Government credits, the amendment as proposed by me would enable any foreign government to buy whatever it pleased by using the instrument of some commercial firm or of its banks, as in the case of the Brown credit. It is to be borne in mind that if an accepting bank fail, the Federal Reserve banks would be in the somewhat difficult position of having to sue a foreign government in case the draft had been issued by a government direct, a situation which can easily be avoided without the least interference with the fullest development of our commerce and trade. If the Board should decide, however, that it wishes to open the door for such drafts by foreign governments, it is suggested that the following wording should be preferable to that proposed by Governor Strong, inasmuch as it establishes the connection of the banker with the importation or exportation of goods:

" 'A banker's acceptance must be drawn by the purchaser or seller of the goods, upon the importation or exportation of which is based the transaction from which the acceptance originated, or by some person, firm, company, or corporation directly connected with said transactions or acting or as banker for the purchaser or seller.'

"If, as suggested by Mr. Strong, the last two sentences of clause (c) be stricken out, our regulations contain nothing about renewals, and it will be necessary, of course, upon request of the banks in that case, to give a separate ruling about these renewals. I would suggest, therefore, for the consideration of the Board, whether it would not be preferable to add at the end of this clause after the clause herein suggested, as follows:'

" 'The bill must not be renewed after the goods have been surrendered to the purchaser or consignee except for such reasonable period as may have been agreed upon at the time of the opening of the credit as a condition incidental to the importation or exportation involved.

"There is no objection to the changes proposed in (g) and (h) except that it is my belief that if the Board makes unnecessary changes in this regulation, it will be said by one side or the other that these changes have been made for the purpose of being of assistance to certain parties, and the Board is certain to be attacked on these lines. The more closely we adhere to the lines originally adopted, the stronger our position will be, provided that the Board does not, by anything that it does or leaves undone, interfere with the legitimate requirements of the situation.

"This is one of the reasons why I should think they would be in favor of the policy outlined by me.

"The change in the last paragraph of IV is so radical that it needs no further elaboration on my part. It means that the Federal Reserve banks may buy any acceptance they please; also those made by non-member banks, for the financing of domestic transactions. While it may be well that the ultimate development may lead us in this direction, I believe it is well worth while carefully to consider whether this radical step should be taken at this time."

General discussion ensued, Mr, Strong being asked to explain his reasons for the proposed changes. Mr. Strong stated that, in general, he considered the whole regulation of the Board unduly restrictive upon operations of the Federal Reserve banks. Commenting upon Mr. Warburg's memorandum, he said it was true that the proposed changes would open the way to the undertaking of business with foreign governments, but he thought there was nothing in the act inconsistent with such transactions. If the member banks have the right to accept paper of any character, he said, they would also have a right to rediscount acceptanes thus taken, otherwise member banks would soon be filled up with paper which was non-rediscountable. In the same way governments ought to be allowed to draw, and to use the same kind of commercial instruments that are used by private citizens in conducting trade. Otherwise they would have to do business on a basis different from that which had already been developed in the course of private business experience.

Secretary McAdoo broadly endorsed this view and expressed himself in favor of anything that would help to finance export trade.

Mr. Miller said that he desired to finance all trade on a sound business basis. He thought, however, that the Board would have a serious cause for regret should it allow itself to be governed in its general policies by conditions that were purely temporary and would before long pass away. He was willing to provide for the renewal of acceptances if necessary and for the rediscount of such acceptances with Reserve banks, but he would not go further than was absolutely necessary to meet the present situation. He would not be willing to take any action that would commit the Board to a future policy.

The Board should be careful at all times not to allow itself to be misled into the adoption of questionable policies, particularly those out of harmony with the spirit of the Federal Reserve Act under the plea of necessity. The present proposals, Mr. Miller added, seem to be inconsistent with the policies and principles laid down by the Board in its first report and in its subsequent regulations.

Mr. Harding thought that it was fundamentally necessary to keep the export trade of the country up to as high a level as possible and in order to accomplish this end, some form of credit must be arranged to sustain it. As to drafts of foreign governments he said that it was a fact that such governments were assisting private concerns in their own countries; they were helping to finance given industries. This was really the same in essence as the government's giving its endorsement to its own importers. Conditions had changed since the act was drawn and even since the existing regulation had been drafted. That made it necessary to adapt the rules to the changed conditions.

Mr. Strong in closing said that it seemed to be the fear of some that the acceptance power would be abused. He could assure the Board that there was no danger of such result. The banks of New York had had the unrestricted right to accept for some months, very few having abused it. Even where such abuse had occurred, it very quickly corrected itself because no one would buy acceptances that were unwisely made.

Governor Hamlin discussed the question of prime bills and asked Mr. Strong his view with reference to the different classes of bills in use abroad. Mr. Strong outlined the different classes in use and emphasized the view that all classes of bills, except accommodation paper, whether documentary or not, if they were "prime" were currently accepted by English banks and taken by the Bank of England.

At this point Mr. Strong and Mr. Curtis withdrew from the meeting.

After further discussion a vote was called for on the amendment provision (c) reading as follows:

"(c) A banker's acceptance must be drawn by a commercial, industrial, or agricultural concern (that is, some person, firm, company, or corporation) directly connected with the importation of exportation of the goods involved in the transaction in which the acceptance originated, or by a 'banker.' In the latter case the goods, the importation or exportation of which is to be financed by the acceptance, must be clearly specified in the agreement with or the letter of advice to the acceptor. The bill must not be drawn or renewed after the goods have been surrendered to the purchaser or consigneee."

On motion it was agreed to accept the amendment as thus provided with an addition making it read as follows:

"A banker's acceptance must be drawn by a purchaser or seller or other person (firm, company, or corporation), directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated, or by a 'banker.' The bill must not be renewed after the bills have been surrendered to the purchaser or consignee except for such renewal period as may have been agreed upon at the time of the opening of the credit as a condition incidental to the importation or exportation involved, provided that the bill must not contain or be subject to any agreement whereby the holder thereof is obligated to renew the same at maturity."

Mr. Strong's amendment to sub-section (d) with somewhat further modification was adopted so as to make the sub-section read as follows:

"(d) A banker's acceptance must bear on its face or be accompanied by evidence in form satisfactory to a Federal Reserve bank that it originated in or is based upon a transaction or transactions involving the importation or exportation of goods. Such evidence may consist of a certificate on or accompanying the acceptance to the following effect:

"This acceptance is based upon a transaction involving the importation or exportation of goods. Reference no. —. Name of acceptor ———."

The other amendments proposed by Governor Strong in sub-section (e), (f), (g), and (h) were on motion all adopted as proposed. The subsequent amendment proposed by Mr. Strong in the text of the regulation were defeated, so that the revised text of the regulation as agreed upon read as follows:

REGULATION R, SERIES OF 1915 (SUPERSEDING REGULATION J OF 1915)

WASHINGTON, *September 7, 1915.*

BANKERS' ACCEPTANCES

* * * * * * *

The precise form to be given to the circular accompanying the regulation was referred to a special committee consisting of Mr. Harding and Mr. Miller, and the same action was taken with reference to the circular to accompany the commodity rate regulation.

The secretary of the Board was directed to give the commodity paper circular and regulation to the press for publication in the papers of Saturday morning, with an accompanying statement.

On motion it was voted to approve a commodity paper rate of 3% for Atlanta, the same having been proposed by the Atlanta bank by telegraph. The secretary was also authorized to inform the Federal Reserve banks of Dallas and Richmond of the action taken and it was agreed that in the event that these two banks should apply for a 3% commodity rate, it should be extended to them.

EXHIBIT No. 2438

[Excerpt from the minutes of the Federal Reserve Board, meeting of September 3, 1915]

The Governor of the Board presented a letter from Governor Strong of New York making specific inquiry as to the eligibility of certain acceptances made under a certain contract of Brown Brothers providing for a credit of $20,000,000 in the United States. It was agreed that in reply the Board should simply say that the new regulation, copy of which should be enclosed, would answer the question.

EXHIBIT No. 2439

FEDERAL RESERVE BOARD,
Washington, September 8, 1915.

DEAR GOVERNOR STRONG: I have your letter of September second, enclosing copy of the memorandum which you prepared for Secretary McAdoo last July. I have read this memorandum with great interest.

We are in full accord as to almost every point. As a matter of fact, if you will pull out again the copy of the paper that I wrote at the time with respect to measures that should be taken by the United States in order to prepare for emergencies, you will find that we are proceeding on the same lines.

The only point on which we differ is the question of finance drafts and Goverment drafts. Your argument is that you want these in order to take care of the regular commercial business of the country, fearing that all available credit facilities might be absorbed by the war industries. My conviction is that you are bringing about just the reverse of what you want to achieve in this respect. We both agree that everything should be done to facilitate transactions like the Brown credit and other commercial credits to assist the business of the country, but I am convinced that if you would permit plain finance drafts (provided this could be done under the law, which I doubt) the conseqeunce would be that, with the lack of enterprise shown by the American bankers in this resepct, all their acceptances, and, in any case, a very large percentage, would go to finance drafts which could easily be arranged in groups and what we really want—the substitution of the dollar acceptance to finance the regular commercial transactions—would remain in the hands of Europe as in the past. My own feeling is that if we do not encourage the finance drafts we will be in a position to force Europe to turn over to us their regular acceptance business for the financing of commercial transatcions, and that, by doing that, our banks will be gradually forced and trained to build up the necessary machinery, even though, in the beginning, I expect that these transactions would be done almost exclusively for account of foreign banks. But the difference is that the commercial importer or exporter in that case would draw on the American bank while, in your case—like the Brown credit—the foreign banks would draw on American banks but the commercial world at large would never know of these transactions, the immediate commercial business being carried on, as in the past, by European banks with our money. When the war will be over, we shall have missed the one great opportunity which is now at hand.

As to direct government drafts, I think (as I expressed to you) it is bad banking policy to have governments draw direct instead of using their commercial or banking machinery. By using the latter, you have some guaranty that the transactions that are being financed are of a commercial nature. If you eliminate the latter, you are apt to have government drafts which ultimately have no connection with the original purchase but are based on the taxing power and the ability of the foreign countries to pay off their loans. There is no end to such loans. If allowed, they would be issued to the very limit up to which banks are willing to accept and are able to discount the same, and, therefore, they are apt to unsettle a system which is based on commercial requirements. I do not for a minute believe that the trade of our country would have suffered by maintaining the original principle in this respect for, as I said to you, the limit is not what the European banks can draw but what the American banks can accept, and the American banks can accept less than the European commercial houses and banking firms can draw. I do not believe that one cent of trade would have been lost by maintaining the form of the commercial draft or bankers' draft.

You see that we do not differ as to the results we want to bring about. The only difference between us is, as I stated before, that I see in the present constellation a rare opportunity which will never return of establishing our dollar acceptance in the world market, while your preference for the easier way is bound to interfere with this development. You know that nobody has been more consistent than I in working for the broadening of our acceptance market and acceptance regulations. There are only two restriction which I think we should observe—the one is, as I stated before, that our system should develop in the right direction, and the other is that, until Congress will give National banks the power to accept for domestic transactions (a power which I think we should strain every effort to secure for them) we shall have to consider the condition of the National banks in framing our open-market regulations. We have given the State institutions many advantages and I do not think it would be fair to the National banks to open the Federal Reserve Banks for domestic bankers' acceptances before we have made a real effort to secure this power to accept for domestic transactions for National banks.

Very truly yours,

(Signed) PAUL M. WARBURG.

BENJ. STRONG, JR., Esq.,
Governor, Federal Reserve Bank of New York.

P. S.—I return your memorandum herewith.

EXHIBIT No. 2440

332.2

FEDERAL RESERVE BANK OF NEW YORK,
November 10, 1915.

[Personal]

DEAR MR. WARBURG: I am writing a letter to Governor Hamlin, of which the enclosed is a copy.

Governor Strong and I have been talking the matter over, and as I think you will understand from the conversation which you and I had last Saturday evening, we are very anxious to have our scope widened by being able to buy private bankers' acceptances.

You will also realize the difficulty of getting statements from the best bankers. We on our side realizes the possible embarrassment which might result from a further modification of the acceptance regulation at the present time, but it has occurred to us that at the annual revision of regulations in January 1916, which is periodic and not special, you might find it practicable to modify the acceptance regulation in the manner we have suggested.

Yours very truly,

[S] PIERRE JAY (E), *Chairman.*

Honorable PAUL M. WARBURG,
Federal Reserve Board,
Washington, D. C.

EXHIBIT No. 2441

332.2

FEDERAL RESERVE BANK OF NEW YORK,
November 10, 1915.

DEAR SIR: During the past two months Governor Strong has discussed with some of the leading private bankers in this city the question of their submitting statements in accordance with regulation R of the Federal Reserve Board, in order that their acceptances may be eligible for purchase by this bank. They have never been in the habit of making statements and do not feel inclined to make a statement to this bank which would be subject to the inspection of its board of directors, which is necessarily a changing body, dependent upon the selection of directors by the member banks and by the Federal Reserve Board. They find the same objection to submitting a statement for the inspection of the executive committee, inasmuch as this is a rotating body on which all members of the Board during the course of the year will serve.

A few of the leading bankers have suggested to Governor Strong that they would be willing to submit a statement in such form as might be necessary, to him and to me for our confidential information, which we should retain in our personal possesssion.

We have discussed this at two or three meetings of our board of directors and at a special meeting of the executive committee, to which the subject was referred. There is a feeling on the part of some of our directors that this would not be a satisfactory compliance with paragraph IV, which requires a *Federal Reserve bank* to secure a satisfactory statement of the financial condition of the acceptor. It is their feeling that as the regulation requires the *bank* to obtain the statement, it would not be sufficient compliance with it if this statement were obtained and kept only by the Governor and the chairman.

On the other hand, if this specific requirement were not in the regulation, our Board would feel quite ready, on the basis of the general credit of certain private banking firms, to authorize the officers to purchase certain lines of their acceptances, and this we are anxious to do in order to have as large a volume of eligible acceptances as possible for the purpose of increasing the volume of the acceptance market.

The fact that no statements were required by the regulation would not prevent Governor Strong and me from getting them in the manner above described, and such action, I believe, would meet with the approval of our Board; but as long as the regulation does require them, they do not consider that statements obtained in this manner would comply with it.

As a result of the discussions which I have referred to, our board of directors this morning voted that the chairman be directed to write to the Federal Reserve Board requesting them to modify the terms of regulation R in respect of the requirement of financial statements from acceptors of bills in such manner that the directors of this bank may be permitted to determine whether, and in what cases, such statements shall be required.

It is our earnest hope that in view of the desirability of broadening the discount market here, the modification suggested by our Board may meet with the approval of the Federal Reserve Board.

Respectfully,

[s] PIERRE JAY(E), *Chairman.*

Honorable C. S. HAMLIN,
Governor, Federal Reserve Board,
Washington, D. C.

PJ/LCE.

EXHIBIT No. 2442

332.2

FEDERAL RESERVE BOARD,
Washington, November 19, 1915.

Memorandum.

My suggestion with respect to the modification of the Board's regulation R, section IV, paragraph (e), made by the Federal Reserve Bank of New York, is that no change be made in the regulation but that the Board by letter to the Federal Reserve agent advise that in its opinion it would not be detrimental to [inconsistent with the] good administration of the Federal Reserve bank ordinarily [and within the power of the board of directors of the F. R. bank, whenever in their judgment this should appear advisable,] to restrict the use of statements of private banking firms to the chairman and Governor, and that letters to this effect be addressed to the chairman of the several banks.

A. C. M.

NOTE.—Pencil notations enclosed in brackets.

EXHIBIT No. 2443

332.2

FEDERAL RESERVE BOARD,
Washington, November 20, 1915.

Mr. PIERRE JAY,
Chairman of the Board and Federal Reserve Agent,
Federal Reserve Bank of New York, New York, N. Y.

DEAR SIR: Replying to the request contained in your letter to the Governor of November 10th, that the Federal Reserve Board "modify the terms of regulation R in respect of the requirement of financial statements from acceptors of bills in such manner that the directors of this bank may be permitted to determine whether and in what cases such statements shall be required", I beg to say that your request has been considered by the Board and I am directed to reply that the Board believes it would be inadvisable to amend regulation R in the way suggested. It is of the opinion, however, that it is within the power of the board of directors of a Federal Reserve bank, whenever in their judgment such a course should appear advisable, to restrict the use of statements of private banking firms to the chairman and Governor, and furthermore, that such a course would not be inconsistent with the good administration of a Federal Reserve bank. The board believes that this method would provide a solution for the difficulty presented in your letter of November 10th.

Respectfully,

——— ———, *Secretary.*

EXHIBIT No. 2444

332.2

FEDERAL RESERVE BOARD,
Washington, November 24, 1915.

PIERRE JAY, Esq.,
Chairman of the Board and Federal Reserve Agent of
Federal Reserve Bank, New York.

DEAR SIR: Replying to the request in your letter to the Governor, dated November 10th, that the Federal Reserve Board "modify the terms of regulation R in respect of the requirement of financial statements from acceptors of bills in such manner that the directors of this bank may be permitted to determine whether, and in what cases, such statements shall be required", ~~I beg to state that the Board has considered the matter, and has reached the conclusion that it would not be advisable to amend regulation R in the way you suggest, as it is believed advisable to require such statements uniformly from acceptors whose acceptances are purchased by Federal Reserve banks. You will note that the regulation prescribed that the Federal Reserve bank must have secured a satisfactory statement.~~ While the form of this statement is to be approved by the Federal Reserve Board, the method by which it is obtained would seem to be within the discretion of the board of directors. It would seem, also, that ~~the Board~~ [your directors], assuming that this is the practice in ordinary commercial banks, could delegate to its officers the matter of securing such statements, and the [Federal Reserve] Board, as at present advised, will not insist that such statements shall remain upon the files as the property of the bank. It would seem not unreasonable that when a bank has ceased to discount acceptances of any particular banker, ~~that~~ [whose obligation to the bank shall have been paid off] his statement should be returned to him, and if ~~they~~ [it] were made a permanent part of the records of the bank such course would not be possible.

The matter in question is one largely within the discretion of the board of directors, which can make any order as to such statement which it deems necessary for the protection of the bank at any time.

Very truly yours,

——— ———, *Secretary.*

NOTE.—Pencil notations enclosed in brackets.

EXHIBIT No. 2445

332.2

NOVEMBER 30, 1915.

DEAR SIR: Replying to the request in your letter to the Governor, dated November tenth, that the Federal Reserve Board "modify the terms of Regulation R in respect of the requirement of financial statements from acceptors of bills in such manner that the directors of this bank may be permitted to determine whether, and in what cases, such statements shall be required", you will notice that, in the open market regulation for bankers' acceptances, the language has now been used, in connection with statements to be furnished by private bankers, "provided that a statement is furnished", the words "the Federal Reserve bank must have secured" having been eliminated.

This would appear to remove the difficulties you outline in your letter and enable your board to dispose of the matter on the lines indicated by you.

Yours truly,

——— ———, *Secretary.*

PIERRE JAY, Esq.,
Federal Reserve Agent,
New York.

EXHIBIT No. 2446

332.2

FEDERAL RESERVE BANK OF NEW YORK,
December 1, 1915.

SIR: I acknowledge with thanks receipt of your letter of November 30th, relative to the terms of Regulation R. In view of your letter, both Governor Strong and I have read this over again and do not seem able to find the wording, "providing that a statement is furnished", to which you refer.

I should be very much obliged if you could give me a more specific citation of where these words occur.

Respectfully,

[s.] PIERRE JAY, *Chairman.*

H. PARKER WILLIS, Esq.,
Secretary Federal Reserve Board,
Washington, D. C.

EXHIBIT No. 2447

332.2

DECEMBER 3, 1915.

DEAR MR. JAY: In reply to your letter of December first, stating that you are unable to find the words "providing that a statement is furnished", I herewith enclose copy of Regulation S, on page four of which the paragraph in question has been marked.

I notice that you refer to Regulation R, while it is Regulation S to which reference was had.

Very truly yours,

——— ———.

PIERRE JAY, Esq.,
Federal Reserve Agent,
New York.

Enc.

EXHIBIT No. 2448

332.2

FEDERAL RESERVE BANK OF NEW YORK,
December 6, 1915.

DEAR MR. WILLIS: I thank you for your letter of December 3rd and the enclosed copy of Regulation S. At the time I received your other letter, I had not heard of this new regulation, and as it was not specifically referred to by letter, I think you will understand why I was not able to locate the wording.

Very truly yours,

[s] PIERRE JAY, *Chairman.*

H. PARKER WILLIS, *Esq.,*
Secretary Federal Reserve Board,
Washington, D. C.

PJ/RAH.

EXHIBIT No. 2449

OCTOBER 8, 1915.

[Memorandum no. 2]

FEDERAL RESERVE BOARD REGULATIONS RE ACCEPTANCES

Before outlining forms of dollar credits that may be available for English institutions, it is well to set out the regulations of the Federal Reserve Board with regard to commercial acceptances.

(1) No national bank can accept finance bills.

(2) State institutions in some of the States, and all private bankers, can accept finance bills, but no finance bills are "eligible" for rediscount at the Federal Reserve Bank without the endorsement of a member bank.

(3) National banks may accept bills drawn against "(quote ruling)" to the extent of their capital and surplus, but only to the extent of ten percent of their capital and surplus for any one drawer.

(4) State institutions are not generally limited in their accepting power, but they are generally restricted against accepting for any one drawer to an amount larger than twenty-five per cent of their combined capital and surplus (New York State—other States different percentages).

(5) Private bankers are not restricted as to the amount of their acceptances, or the amount accepted for any person, but their bills are not eligible for direct discount with the Federal Reserve Bank—

(A) Unless they are based on a commercial transaction involving imports or exports.

(B) Unless the private bankers have qualified with the Federal Reserve bank (qualification requires the filing of a statement of assets and liabilities, and that the statement should be satisfactory to the Federal Reserve bank. Non-eligibiliy of private bankers' commercial acceptances does not in itself militate against their marketability).

(6) All commercial acceptances, whether eligible or not, are rediscountable with the Federal Reserve bank when endorsed by a member bank, subject to the restrictions of the act with regard to the amount discountable by the Federal Reserve bank for any one person or institution, etc.

EXHIBIT NO. 2450

NOVEMBER 11, 1915.

DEAR MR. WARBURG: Thank you for your letter of November 9th. Your argument is a very convincing one, but I cannot help feeling that you are accepting with unnecessary complaisance a rather narrow construction of a very indefinite statute which our Congress has exhibited a confused state of mind as to the difference between a draft, a bill of exchange, and an acceptance. I have always felt that too narrow a construction of the meaning of the law just at this time, when we are attempting to develop a bill market, and to develop commercial credits in connection with exports and imports, would seriously hamper as rapid a growth of the business as would be possible if we took a very broad view of what the statute means. I feel about bills (and you notice I use the word "bills" as distinguished from drafts, bills of exchange, or acceptances) exactly as I stated in Minneapolis. It is one of the draught horses of commerce. If we confine our bill market by technical definitions beyond those that are really required by the statute, we will attempt to make our draught horse walk on one leg, or two legs, or possibly three legs. In order to perform his function, he ought to have four sound legs.

Pardon this rather crude reply to your very able argument. I know you will say in reply that your rulings are limited by the statute. I do not believe they are circumscribed, however, as seriously as your argument indicates.

Would you mind giving me the benefit of Cotton's views on this subject? I have never had an opportunity to discuss it with him.

This matter will come up again in an important way in connection with English credits. A transaction will, I believe, be arranged in the near future by which the leading English banks, acting through a committee, will open credits with a large number of American banks, such credits to be distributed and managed through a committee of bankers representing a number of larger cities. These bills, I anticipate, will be drawn for three months with one renewal arranged at the time the credit is opened—no obligation, however, attaching to the bill or the holder of the bill to renew. If clean bills are drawn, as I anticipate will be the case, the proceeds will probably be disposed against the surrender of export documents or against other evidence that the payment is made for goods actually exported from this country. If the bills are secured by title to the goods exported from this country. If the bills are secured by title to the goods exported, it will, I believe, be arranged that other adequate collateral will be substituted as security to the acceptor before the documents are surrendered and the title passed to the purchaser. In the interest of our export trade, I believe it is important that bills of that character should be eligible, and more important still, that there should be no doubt in the minds of the national bankers that they are authorized under the Federal Reserve Act to accept bills of that character.

I am anticipating negotiations which are far from being concluded, and thought you and your associates would like to know about how this matter was developing.

Yours very truly,

——— ———, *Governor.*

Honorable PAUL M. WARBURG,
Federal Reserve Board,
Washington, D. C.

BS Jr/RAH.

Exhibit No. 2452

J. P. Morgan & Company—Summary of "special loan to Morgan, Grenfell & Co., client", February 20, 1915, to December 18, 1915

Date	Sundry			Cable transfers	Participations		Interest paid to participants—			Cash to British Govt. commercial agency account	Rate	Cable transfers on Morgan & Co.	On others	Received from Bank of Eng.—		Sale of securities	Interest received	Loan balance
					Repaid	Received	Balance	Morgan	Others					Cash [1]	Gold [1]			
1915		Dr.	Cr.	Dr.	Dr.	Cr.				Dr.		Cr.		Cr.	Cr.	Cr.	Cr.	
Feb. 20						2,750,000.00				5,500,000.00								2,750,000.00
23	@ 481½			1,926,000.00		1,035,262.50												
23	@ 481¾			144,525.00														3,785,262.50
24	@ 480⅜			1,489,162.50		900,695.30												
24	@ 480 5/16			120,078.13														
24	@ 480⅜			192,150.00														4,685,957.83
25	@ 480 11/16 and 480¾			1,962,916.71		981,458.36												5,667,416.18
26	@ 480¾			168,262.50		2,619,882.80												
	@ 480 13/16			697,178.13														
	@ 480⅞			1,971,587.50														
	@ 480½			696,725.00														
	@ 480⅝			120,156.25														
	@ 480 9/16			1,585,856.25														8,287,299.01
Mar. 1	@ 480¾			1,923,000.00		961,500.00												9,248,799.01
9	@				624,399.48													9,873,198.49
12						1,000,000.00												8,873,198.49
24	@ 478⅝			239,312.50		568,511.72												
	@ 478 13/16			1,197,031.25														
	@ 478 11/16			837,703.13														10,578,733.65
Apr. 26								33,550.11	32,578.91								66,129.02	10,578,733.65
May 8																	71,546.78	10,507,186.87
10								36,868.42	34,678.36									10,578,733.65
15					1,225,000.00									2,500,000.00				9,303,733.65
17					1,367,911.20									2,496,122.00				8,175,522.85
21	@ 478 13/16			4,788,125.00		2,100,000.00												10,863,647.85
22	@ 478 11/16			359,015.63		100,000.00												
	@ 478⅝			47,862.50														11,170,525.98
25	@ 4‾8 15/16			3,352,562.52		1,100,000.00												14,548,444.75
	@ 478⅞			1,125,356.25														18,352,885.38
26	@ 478 15/16			5,104,440.63		1,300,000.00												23,231,822.89
27	@ 478 15/16			6,478,937.51		1,600,000.00								2,500,000.00				22,493,635.39
28	@ 478 15/16			1,436,812.50	625,000.00	300,000.00								7,492,338.67				15,360,234.22
June 1	@ 478 15/16			478,937.50		120,000.00												19,110,234.22
2	@ 478 15/16			2,500,000.00	1,875,000.00	625,000.00												17,589,390.48
3				4,634,156.26		6,155,000.00												
4	@478 15/16			814,193.76		3,475,000.00												16,006,052.99
	@ 478⅞			1,077,468.75										2,500,000.00				
5	@ 478 15/16			4,200,228.13	625,000.00	1,075,000.00												17,375,999.87
	@ 478⅞			119,718.75										2,496,245.80				13,346,832.20
7	@ 478 15/16			1,317,078.13	625,000.00	3,475,000.00												11,005,769.44
8	@ 478 15/16 disc. on light wght. coin	9.11		933,928.13		3,275,000.00								2,500,000.00				9,605,769.44
9	@ 478 15/16			4,500,000.00	625,000.00	4,025,000.00								2,496,245.80				8,065,567.39
10	@ 478 15/16			431,043.75	625,000.00	100,000.00								4,996,247.80				8,069,319.59
11					5,000,000.00									4,996,245.80				8,073,073.79
14					5,000,000.00									2,500,000.00				8,073,073.79
15					2,500,000.00									2,496,245.80				8,776,871.75
16	@ 477–476 15/16			930,043.76	2,500,000.00	230,000.00								2,500,000.00				8,776,882.39
17	Disc. on lt. wght. coin	10.64			2,500,000.00									2,496,245.80				8,780,636.59
18					2,500,000.00									2,500,000.00				9,314,586.59
19	@ 477			643,950.00	2,500,000.00	110,000.00												
21	@ 476 13/16			262,246.88		2,760,000.00												
	@ 476 11/16			47,668.75														
	@ 476 15/16			1,812,362.49														9,606,770.96
	@ 476⅞			929,906.25														
22	@ 476 15/16			3,863,193.76														
	@ 476⅞ disc. on lt. wght. coin	21.40		405,343.75		4,165,000.00												
23	@ 476 15/16			238,468.75		435,000.00												
	477			238,500.00											2,450,000.00			
24	Shortage and disc. on shipment	73.92			2,450,000.00										2,448,000.00			
25					2,450,000.00										2,448,500.00			
26					2,450,000.00						478 1/16	9,561,250.00						
28					4,975,000.00													
29	Shortage and disc. on shipment	86.16																
30	@ 476⅞			1,740,593.75		2,300,000.00												
	@ 476 15/16			2,861,625.00													149,767.39	
July 1	@ 476⅞			3,511,936.14		1,200,000.00		68,634.44	81,132.95									
1915 July 1	@ 476 13/16			71,521.87														
	@ 476 15/16			143,081.25														
	@ 476¾			333,725.00														
	C/tfr. cancelled			*1,740,540.62*										47,197.54				
2	@ 476⅞			1,430,625.00	12,000.00	687,000.00												
	@ 476¾			238,375.00														
	@ 476 15/16			71,540.62														
	Disc. on lt. wght. coin	197.76												[3] 98,159.36				
6	" " " " "	17.13			25,000.00						(2)		9,551,250.00	[3] 1,178,976.00				
8					5,000,000.00						@ 477 9/16							
10	Expense of gold coin shipment	767.65																
12	Disc. on lt. wght. coin	3.25									@ 477⅛	548,693.75						
16					270,000.00													
20	@ 476⅞			2,026,718.75		2,100,000.00												
	@ 476¾			2,193,050.00														
21	@ 476 15/16			1,284,593.75		820,000.00											27,377.41	
26					6,100,000.00			14,281.59	13,095.82		@ 477	12,213,263.35						
	Subtotal	*1,187.02*		*82,510,040.45*	*54,449,310.68*	*54,449,310.68*		*153,334.56*	*161,486.04*	*5,500,000.00*		*22,323,207.10*	*9,551,250.00*	*48,790,270.37*	*7,346,500.00*		*314,820.60*	
July 31	@ 476 13/16			333,768.75														
	@ 476 11/16			2,383,437.50														
	@ 476¾			5,864,025.00		4,300,000.00												
Aug. 3	@ 476 11/16			119,171.87														
	@ 476¾			1,191,875.00		650,000.00												
4	@ 476¾			8,030,300.00		3,600,000.00												
	@ 476 11/16			238,343.75														
5	@ 476¾			738,962.50		175,000.00												
9	@ 476½			11,436,000.00		2,875,000.00												
10	@ 476 7/16 and 476⅜			3,834,918.75		950,000.00								19,530,000.00				
11	@ 476 3/16			1,499,990.63	5,000,000.00	2,750,000.00												
11	@ 476¼			1,714,500.00														
11	@ 476⅛			7,237,375.00														
11	@ 476 1/16			309,440.63														
11	@ 476			238,000.00														
12	@ 475¼			1,568,325.00		400,000.00												
	Expenses on gold shipment	68,976.90				1,200,000.00												
13	@ 474			4,740,000.00														20,117,411.28
14	@ 472¼			1,818,162.50														
	@ 472⅛			802,612.50														
	@ 471 9/16			2,357,812.50		2,700,000.00												
	@ 471½			2,357,500.00														
	@ 472			3,068,000.00										[3] 3,500,000.00	(3)			
17					875,000.00									[3] 1,040,000.00		194,844.77		
18					300,000.00											2,953,995.27		
19					800,000.00											434,457.41		
20					50,000.00											881,441.55		
23					175,000.00													21,016,759.78
24	Cost of exchange Atch. Cal. & Ariz. series 4½ Bonds.	2,570.82			350,000.00											1,214,166.68 *5,678,905.68*		
25	Cost of ech. Atch. Cal. & Ariz. cancelled		2,570.82															
	Sec. sold 8/16–18–19–20–23–24 Tr'sf. to Brit. Govt. a/c.														89,501.72			
26					25,000.00	1,425,000.00								19,474,111.92				
30					5,000,000.00										6,465.34			
Sept. 1								58,679.43	34,207.63						5,256.40			
7														18,289,200.00	(3)			
8					8,400,000.00										867,905.15			
9	Cable expenses	525.00			50,000.00			6,770.75	5,755.55						5,705.00			
16	Disc. on lt. wght. gold	114.06													83,305.03			
17															60,556.82			
21																		
22	Cost of shipping sec. trs'fd. to Treas. a/c from Halifax to N. Y.		89,648.50															
1915 Sept. 22	Cable exps. Of M. G. & Co	101.97													93,698.55			
23	@ 471 7/16			982,947.19														
	Disc. on lt. wght. coin	163.55													27,581.90			
24																		
25	@ 471 5/16			121,598.62											2,107.48			
29																		
Oct. 2	Int. on cr. balances @ 2%		633.72															
	Proforma 3106 @ 472	3,315.00																
Nov. 15	@ 465 15/16			1,514,296.88														
	@ 465⅞			349,406.25														
22	@ 469 15/16			892,881.26														
	@ 469⅞			2,513,831.25														
23	@ 469 15/16			939,875.01														
	@ 469⅞			93,975.00														
Dec. 2	@ 471¾										@ 471¾		165,112.50					
	@ 471 11/16										@ 471 11/16		2,358,437.50					
	@ 471⅝										@ 471⅝		1,179,062.50					
7	@ 471 3/16			471,187.50														
	@ 471 5/16			589,140.63														
	@ 471½			1,225,900.00														
11	@										@ 472⅝	2,263,125.00						
14	@ 471 15/16			778,696.88							@ 472 9/16	2,362,812.50						
18											@ 472 9/16	951,559.98						
	Cable exps	43.76																
	Int. on debit bals. @ 3½%	10,875.56																
	Total	87,873.64	92,853.04	154,866,298.80	75,474,310.68	75,474,310.68		218,784.74	201,449.22	5,500,000.00		28,000,704.58	13,253,862.50	110,623,582.29	8,588,583.39		314,820.60	

Figures in italic red.

[1] Records in some correspondence do not clearly indicate whether shipment was in cash or gold. Therefore these columns should be combined. Notations opposite individual amounts based upon information contained in cables.

[2] From Guaranty Tr. Co.

[3] Gold.

EXHIBIT No. 2451

[Copy]

135 ARCH STREET,
Philadelphia, Pa., October 29, 1915.

The SECRETARY OF STATE,
Washington, D. C.

DEAR SIR: We beg leave to acknowledge receipt of your favor of October 23, the same in reference to cabling the American Ambassador in London, in reference to permission to import certain goods from Messrs. Hajee Amir Deen Mohamed Ismail, Hyderabad, Sindh, India, and Mr. G. R. Forster, 75 Weston Street, Bermondsey, London, S. E., England.

Our previous letter informed you that we had, in accordance with the suggestion of the British consul general here, cabled and written the foreign office, London.

Appended you will please find copies of two letters, one from the Under-Secretary of State, Foreign Office, London, dated October 15, and the other, from the India office, dated October 18.

The latter only treats with the shipment from India, and you will note that the Government of India was informed by telegraph on August 28 respecting a proposed shipment, and again on September 28, but it is evident that the India Government did not act promptly, for on receipt of further advices from here, as regards the nonshipment from India, the London office again cabled on October 2nd, asking the India office to issue orders to the customs authorities. These instructions we believe have now been complied with, because we received a cablegram on October 25, advising us of the shipment from Hyderabad.

Neither of the letters above referred to gives us any information respecting permission to ship, being given to Mr. G. R. Forster for some reason that is held in abeyance; and we know that up to the present, permission to Mr. Forster has not been granted. As the conditions given to the British consuls here were the same governing shipments from London, as from India, all of which have been complied with, we fail to understand why they delay permission to Mr. Forster. No doubt your cablegram to the American Ambassador will bring a reply.

There is no question of doubt but what there is a hold-up between certain officials in London and Mr. A. M. Patterson, representing the Textile Alliance Inc., New York; and as we complied with the instructions laid down by the British Government, through the consul general here, we must look to the Department of State, or the Department of Commerce to protect our imports, and not be held up by the irregular actions of others.

In our letter of October 12 we called your attention to the difficulties under which American importers were laboring at the present time, owing to the rather arbitrary action of the British officials. It is very difficult to obtain direct proof, but the circumstantial evidence today is that the British Government, virtually having control of the seas, is indirectly discriminating against other than English merchants in foreign countries. The evidence of that, we think, can be better obtained through the American consuls at the various ports.

We beg leave to further inform your Department that the British Government and British bankers, are doing all they possibly can to prevent operations under letters of credit direct; that is, through American national banks instead of through the intermediate bankers of London. We are doing all we possibly can by writing to various shippers, and sending them statements of some of the ablest banks in this country, and informing them that said banks were under the supervision of the United States Treasury Department, and that drafts drawn by the shippers against national bank credits were A1. The suggestion might be in order that the proper Government official, in the way they might think most advisable, bring to the attention of the local bankers in foreign countries, information respecting the national banks in connection with the Reserve System, in such a way that they can see for themselves that credits issued by our national banks are better than credits issued by private banking concerns who are without supervision.

Yours respectfully,

(Signed). JOHN M. HARPER & COMPANY.

EXHIBIT No. 2453

Federal Reserve
Board File 301.2

AGREEMENT WITH THE BANK OF ENGLAND

AUG. 29, 1916.

Memorandum with respect to the questions of international law raised by the application of the Federal Reserve Bank of New York for consent of the Federal Reserve Board to appoint the Bank of England its correspondent and agent in London.

In considering the questions raised by this application, two issues seem to be presented: (1) Are the actions contemplated by the Federal Reserve Bank of New York, under the plan of operations with the Bank of England, unnuetral in character, and (2) if they are unnuetral, is the Government of the United States involved in such a way as to render the actions of the bank improper?

As to the first point, the actions proposed by the arrangement are:

(1) The establishment of an account with the Bank of England;

(2) The use of the Bank of England as an agent of the Reserve bank, to buy drafts and bills of exchange in the London market for account of the Reserve Bank;

(3) The use of the Bank of England as a custodian of gold owned by the Reserve bank, to be ear-marked for it;

(4) The use of the Bank of England to purchase and sell and ship gold to and from this country when necessary;

(5) A reciprocal purchase by the Federal Reserve bank of bills and drafts in this country for account of the Bank of England.

All the operations above described will be undertaken, if at all, for the purpose of regulating the exchanges between England and this country, which regulation will have as its object the assistance of the commerce of the United States. Such commerce of the United States is entirely proper and lawful in character. This is true, even though the commerce to be assisted by the actions of the Reserve bank consisted entirely of the sale and export of munitions and other contraband of war. The commerce in such munitions and contraband of war was described in one of the early circulars of the State Department, after the outbreak of the present war, as legitimate trade, and was specifically upheld by Secretary of State Lansing in his reply to the Government of Austria-Hungary and characterized as "lawful commerce."

However, the Federal Reserve Board has already sanctioned the indirect assistance of this commerce by the Federal Reserve banks, through its regulations which authorize the purchase by the banks of bills of exchange arising out of the export of goods from this country to the belligerent countries irrespective of whether such goods are, or are not, munitions or other contraband of war.

Consequently, it would appear that the dealing in bills of exchange in England, and the buying and selling of gold in England, and the opening of an account in England cannot be considered as unneutral acts, in view of the fact that taken by themselves such acts are clearly neutral or noncommittal in character and might take on an unneutral quality only through the fact that such fiscal operations might be used to finance exports of contraband of war. As such financing has already been shown to be lawful and not unneutral, there is no ground on which the activities above described can be held to be improper.

As to the second point, that is, whether or not the actions of the Federal Reserve Bank of New York might improperly involve the Government of the United States, assuming that the actions themselves were unneutral, it becomes necessary to consider the relations of the Federal Reserve banks to the Government of the United States, and of the Bank of England to the Government of England.

The Federal Reserve banks bear a relation to the Government of the United States only in the following particulars:

(1) They are created by Federal law;

(2) They are governed by boards of directors, of whom three members out of nine are appointed by the Federal Reserve Board, a Government agency;

(3) They are subject to the general supervision of the Federal Reserve Board, and to regulation by the Board with respect to certain of their activities;

(4) The net earnings of the Reserve banks, after the payment of dividends and the making of certain deductions, are to be paid to the United States as a franchise tax;

(5) The Reserve banks are the medium through which Federal Reserve notes, bearing the obligation of the Government, are issued;

(6) The Reserve banks may act as fiscal agents for the Government when so designated by the Secretary of the Treasury.

It should be noted that these relations between the Federal Reserve banks and the Government differ in degree only, but not in kind, from the relations of the ordinary national banks to the Government, as is shown by the following summary of such relations:

(1) National banks are created by Federal law;

(2) They are under the supervision of an officer of the Government, the Comptroller of the Currency;

(3) They pay taxes to the Government, called duties;

(4) They are the medium through which national bank notes are issued, for the payment of which the Government is obligated by the provisions of the law of 1890.

(5) They may act as fiscal agents for the Government upon the designation of the Secretary of the Treasury.

The only substantial distinction between the two types of institutions is the fact that Federal Reserve banks have three directors out of nine who are appointed by the Federal Reserve Board; but this distinction is only in regard to the method of their appointment, as such directors are no more liable to receive or obey instructions from the Federal Reserve Board than any of the other directors of the Federal Reserve banks.

Consequently, it appears that the Federal Reserve banks can in no sense be called either Government agencies or Government-owned agencies, but are in a situation parallel to that of the national banks.

As for the Bank of England, it is a private corporation, acting under a charter granted by Parliament, the corporation not being owned in any respect by the Government. It receive deposits from the Government, but is not subject to the direction or control of the Government any more than other banking corporations operating under charters.

As has already been pointed out, the Federal Reserve banks, have already been permitted to purchase bills based upon exports of contraband of war, which has not been considered as involving the Government of the United States in any unneutral act. By a parity of reasoning, the establishment of the Bank of England, or the Bank of France, or the Reichsbank, or any national bank of a foreign country, as agent of the Federal Reserve bank, should not be considered as involving our Government in any way. In this connection, it should be noted that the Federal Reserve Bank of New York has already been granted permission to act, and is acting, as the agent of the Bank of the Netherlands in holding custody of gold for that institution, and it has received inquiries looking toward its acting for the National Bank of Greece and the National Bank of Java.

In view of these considerations, it is respectfully submitted that the proposed agreement between the Federal Reserve Bank of New York and the Bank of England is (a) neither unneutral in character nor (b) of a character to involve the United States Government in any manner.

J. F. CURTIS.

AUGUST 29, 1916.

EXHIBIT No. 2454

DENVER, COLORADO, *March 22, 1917*.

DEAR MR. TREMAN: Montagu Norman has sent me copy of Cunliffe's letter of March 2nd, and with a memorandum enclosed therewith, concerning which I wrote Curtis yesterday. At the same time he sent me the enclosed page from an English publication containing an extract from an article which was recently printed in the Journal of the American Bankers' Association. I did not see the article, nor do I see the Journal out here regularly, but it has resulted in some very unfavorable comment abroad, because it betrays such dense ignorance of London methods and conditions. In the interest of a better understanding of these matters, it might be a good plan to have a very discreet and confidential talk with our friend the editor of that publication, whose name I do not recall, and draw his attention to some of the facts regarding British finance. When a man writes today that the Bank of England is not a Government institution, he should explain what he means. When he says that it has avoided alliances, he should be sure of his facts. And when he says that war financing has not been done through the Bank of England, he betrays such stupid ignorance that he subjects the whole banking community to criticism. Almost every statement in the quoted part of the article is either itself inaccurate or so incomplete as to exhibit all the faults of inaccuracy, and if we could arrange to have a discreet but illuminating article published in the Journal in regard to this matter, it might be a good thing. I would be glad to write it if it could be published without my name appearing.

Very sincerely yours,

(Signed) BENJ. STRONG.

R. H. TREMAN, Esq.,
Federal Reserve Bank, New York City.
BS/CC
Enc.

THE BANK OF ENGLAND AND THE FEDERAL RESERVE BANK OF NEW YORK

The January number of the Journal of the American Bankers' Association, which is the official organ of that association, contains some comments upon the recent appointment of the Bank of England as the financial agent of the Federal Reserve Bank of New York which affords startling evidence of the lack of understanding of current financial events in this country prevailing even in such august circles as the American Bankers' Association.

The following extract from the article is sufficient to show the trend of the writer's comments:

"The surprising feature is that the Bank of England is to be the agent. The Bank of England has been much given to aloofness. It is not a Government institution. It has persistently avoided all alliances. British war financing has not been done through the Bank of England. The managers of that staid old institution declined to be parties to the treasury obligations by which the war has been chiefly financed. The notes issued by the bank are still for gold, but it is no longer the dominant factor in the gold market. Its statements, which were formerly the index of British commercial activities, are now all but meaningless. * * * The proposed connection is therefore as interesting in marking a departure for the Bank of England as for the New York Reserve bank. It can mean nothing except that the Bank of England has surrendered its position as the regulator of international finance and London is no longer the financial centre of the world.

"It does not mean that New York has stepped into this position, but it must mean a decided enhancement of the power of New York and the prestige of the New York Reserve bank."

Poor Bank of England And yet we on this side have believed that the reputation of the Bank of England as the cornerstone of British finance never stood higher than at the present time.

To bankers in this country the extract which we have quoted would appear ludicrious were it not a serious matter that at the present juncture such misunderstandings should exist on the other side of the Atlantic.

* * * * * * *

EXHIBIT No. 2455

[Copy]

LONDON, *February 13th, 1916.*

MY DEAR HARJES: Here we are at last after an uneventful but most enjoyable trip across on the "Rotterdam." We were held up for examination of passports, etc., at Falmouth to a degree that was most impressive, and possibly under different conditions would have been exceedingly annoying. Frankly, although my trip is one of business, I am in a frame of mind to submit to almost any degree of annoyance, realizing now as never before how necessary it is that every interest must be laid aside which might interfere with the successful prosecution of this war. You may be surprised at my making this trip, which has some of the elements of a holiday in it. As a matter of fact, London and Paris have meant so much to me in the past that I welcomed the necessity for coming over on business and the opportunity to make a first-hand observation of what is going on.

The principal object of my visit is to make preliminary plans for the banking arrangements of the Federal Reserve System in London, Paris, and Holland. It is most difficult to determine, until I get back home, just how far we can go or would be willing to go prior to the conclusion of the war, but I think we are all agreed that the first steps towards working up our foreign arrangements should be undertaken now rather than later on, hence my trip.

I am looking forward with keen interest to having a visit with you and hope that you will be able to devote a little time to giving me some good advice in Paris, and that it may prove the excuse for you to take a little rest from your arduous labours, which I know you must need.

Jack came over on the boat with me, and I must say he is looking exceedingly well, is in excellent spirits, and stands the strain of their very busy organization with apparent ease.

I have letters to Mr. Ribot, to the governor and deputy governors of the Bank of France. In fact, those are all of the letters that I am taking with me to Paris, and these were furnished me by Mr. Homberg, with whom I have had opportunity to form a most pleasant acquaintance. I hope to have the opportunity for a visit with you before presenting them. * * *

Very sincerely yours,

———— ————

H. H. HARJES, Esq.,
31 Boulevard Haussmann, Paris, France.

EXHIBIT NO. 2456

[Copy]

THE COUNSELOR FOR THE DEPARTMENT OF STATE,
Washington, May 1st, 1916.

BENJAMIN STRONG, Jr., Esquire,
Federal Reserve Bank,
New York City.

MY DEAR MR. STRONG: I received your letter of the 28th ultimo, and have directed that all diplomatic correspondence be sent you. I told them to put you on the list, so that you can get all the other correspondence with us. If you do not receive it, please let me know.

Thank you very much for offering me copies of the English war legislation. If you have an extra set, I would appreciate it tremendously.

Hoping to see you soon, I am,

Yours sincerely,

FRANK L. POLK.

EXHIBIT NO. 2457

RITZ HOTEL,
London, England, March 8th, 1916.

DEAR MR. JAY: The windup of my stay in Paris, the trip to London and getting settled in the hotel, the procuring of a typewriter, etc., made it impossible for me to get off a letter but I have cabled you twice and today have your long cable advising of dear old Paul's uneasiness. He spoke this way to me before I sailed, but I am not sure that it is any more than his cautious disposition which led him to speak as he did. I am mighty glad that Kains went with the party—he is just the man for that sort of an expedition and will help them a lot.

It is rather important that I should be able to rely upon your advising me promptly if developments at the office or in Washington seem to indicate the necessity for my return. The English newspapers pretty good Washington news but, of course, not such news as we would get at the office as to what is really going on. It would only require a definite cable from you to bring me home by first steamer.

I had a wonderful time at Cannes. The weather was delightful and I spent all three days there motoring with Mr. Stillman. The bankers in Paris are all pretty busy, particularly at the Banque de France, nevertheless I had opportunity for some good visits with them, and without going into detail think the foundations are laid for perfecting all of the arrangements that we will require there whenever the time arises. Mr. Harjes was exceedingly kind, giving me a good deal of help and advice. As a matter of fact, the time I spent in Paris was all too short to enable me to cover the ground as thoroughly as it should be, and I fear that the same will be the case in London. I have only been here two days but so much time is lost in arranging appointments, etc.—people are so busy in their offices that one should be here a month or two in order to accomplish anything.

I had a long talk yesterday with Jack Morgan and Grenfell, and another visit this morning with Jack. He is sailing for home on Saturday, having been here for four weeks and as he says he really feels that to make progress upon an important matter here one should allow more time. Just to give you an idea of my programme: I had lunch today with Hartley Withers. Spent an hour or two this afternoon cleaning up mail which has accumulated. At five o'clock Fred Wolcott was to come in and take tea with me but just telephoned that he would have to defer it a bit—he is going to tell me something of his trip through Germany and Poland. At eight o'clock I am dining with Lord Fairfax and a number of bankers. Tomorrow morning I am going to make some calls in the city. At 2:15 James Simpson of the Bank of Liverpool will call. After he leaves I am going to look into the question of steamer reservations for the trip home. At five o'clock Lord Churston, who represents Hallgarten & Company here, will call and take tea with me. At eight o'clock I am dining with Jack Morgan, and some of his friends and associates. Thursday I have set aside to make calls, and at eight o'clock I am dining with Lord Reading and McKenna. On Friday evening the London Clearing Bankers are giving me a dinner at the Savoy Hotel. Saturday afternoon and Sunday I hope to get in a little play with some of the men at the Embassy. By the way, last night I had dinner with Mr. and Mrs. Page and spent a most delightful evening. Mr. Page is a "corker." Monday I am dining with them again. Tuesday night Sir Edward Holden is going to give me a little dinner at which he expects to have the principal men, Paish and others, connected with some of the financial publications of London. The disposition here, naturally, with everybody busy, is to make evening engagements.

I will be sure and get the information asked for in your cable, and am quite certain that it would justify the course we contemplate pursuing in regard to our information department.

You will, I fear, find my letters rather bare and uninteresting but it is the best I can do just now.

I would not let the Equitable people delay the completion of our office, except for good cause shown, as we have lived up to our part of the contract most scrupulously. Mr. Horawitz will do everything in human power to see us in on time I am sure.

The arrangement about the investment account strikes me as being most satisfactory from our standpoint. Mr. Kenzel has sent me a copy of the memorandum. Sorry to learn of the repeated reductions in surplus reserve, and presume it is the usual spring movement commencing. If so, it does not indicate very much but if it is due to expansion in the loan account it would be unfortunate at this time.

With best regards to all in the office, including your good self.

Sincerely yours,

——— ———,

EXHIBIT No. 2458

MARCH 9TH, 1916.

DEAR MR. JAY: I cabled you today as per enclosed copy. What I am doing here is most interesting, and I am sure when the report is made, if as successful here as in Paris, it will be gratifying to you and to the directors. Of course, everything is tentative but is working to the arrangement which you and I have frequently discussed and which would be the most dignified that is possible under the circumstances.

Jack Morgan is here, and I have seen quite a little of him—dined at his house last night and met Lord and Lady Bryce. It really does your heart good to sit down in front of a fire and have a chat with that perfectly delightful man. He certainly does love America and Americans. At times I could not help but feel that in his heart he was weeping over a lost child. Lady Bryce is a charming woman, and a more attractive couple it would be hard to find. Tonight I am taking dinner with Lord Reading and a company of gentlemen of whose names I am not yet advised. Next week I am all booked up with engagements for dinner every night and some luncheons. If we have a rough trip home—after all these dinners and champagne—may the Lord have mercy upon my soul and particularly my stomach.

My best to all of you at the office. I feel like a deserter, and yet no harm can possibly come from this trip, and it may develop infinite good to the Federal Reserve System. I have discussed the matter to some extent with Ambassador Page, with whom I dined alone the other night, and he was quite enthusiastic over the outline that I gave him. Let me say right here that he is a start of the first make, in my opinion. I was mightily attracted to him and hear lots of good things said about him here in the city. He is a good, solid, "home cooking" type of American citizen.

Sincerely yours,

—— ——.

Exhibit No. 2459

March 14th, 1916.

Dear Mr. Jay: I have your two hand-written letters of the 22nd and 27th, which reached me only one day apart. It is hard for you to realize how busy one can be in London with engagements for lunch and dinner every day and calls to make, mostly by appointment, all of which seem to take more time than one allows.

I am cabling you today, as per enclosed confirmation. There is a possibility that my visit here will be well worth while if discussions with Lord Cunliffe, Grenfell, and Montague Norman (which commence this week) progress as satisfactorily as I hope. I am glad to learn of the increase in our investment account which we badly need. I am also glad that we have decided to buy bonds on the basis indicated in your letter—that is consistent with the intention of the law and just as you, Curtis, and I agreed should be our policy. I have read the Chronicle article and it is, as you say, rather vicious. Bankers here have spoken of it to me, but I think they are rather appreciative of our independence of criticism. One or two of them have urged that the law should be amended so that the gold will appear in our assets and the notes in our liabilities. Tonight I am dining with the editors of the financial papers in London, and wish to draw them out on this point to see what impression the Chronicle articles are making.

Hope you had a good time at Ithaca and Elmira—you are not the only ones that have to do "speechifying", as I have been called upon to do a little of it here. The dinner given me by the London Clearing Bankers was really quite a notable affair, and I hope what I said was satisfactory to them—it never is to the performer. I am told that this was the first time that the chairman and the managers of the clearing banks had ever sat around the same dinner table together to entertain a guest. They were most complimentary, and Mr. Bassar-Smith, who presided, in describing the work of our System spoke of it as one of the most notable financial achievements ever witnessed—to organize on such short notice and to obtain such substantial results within a year.

I had learned of the purchase of foreign bills in this market for some of our banks before receiving your letter. I sat in Sir Christopher Nugent's office the other day and looked over a batch of bills which I confess it would have comforted me to see in our own portfolio. However, frankly, I do not think we can yet undertake business along that line for reasons which I shall explain fully when I get home. No one can make plans of that character from New York. The fact is, that whatever tentative arrangements are undertaken, both here and in Paris, must be based upon a preliminary understanding, in both cases, with the Bank of France and the Bank of England. The understanding with the Bank of France has now been discussed fully enough to enable us to go ahead promptly when ready, although the details are not yet agreed upon—simply the principles. That is what I want to accomplish here but it takes time, particularly as the officers of the banks are all so busy with many important matters.

I have had opportunity to look into the check collection matter both in France and here, but want to pursue my inquiries here a little further. I am also arranging to go through the portfolios of some of the banks here, if time permits, including the Union Discount Bank, and get a little better understanding as to the method of dealing in bills, endorsing them, etc., etc.

As a vacation trip, this is a complete failure, but I enjoy meeting the people over here and getting information in a way that is really of value. Everyone is most kind and I am so swamped with invitations that it is difficult for me to cover the ground.

Sir Felix Schuster has given me a good deal of his time, and to great advantage, for I feel that he is so well posted and experienced that an hour with him is a real asset.

For various reasons, it will be impossible for me to go to Holland, even if I stay until April first. I am mighty regretful about the possibility of delay in return, which will not be decided until I receive reply to today's cable. Now that I am here I might as well get the job done.

It will not be possible to make tentative banking arrangements with the joint-stock banks until after discussions are completed with the Bank of England. I wish, on receipt of this letter, you would drop in and see Jack Morgan. He will give you, personally, some information that I am sure you will regard as of value, and will indicate my desire to wait here until the work is done. He and his partner, Grenfell, have been most helpful.

My best regards to all in the office, and the same to your good self.

Sincerely yours,

—— ——.

EXHIBIT NO. 2460

RITZ HOTEL,
London, March 22nd, 1916.

DEAR MR. JAY: I am enclosing a rather brief memorandum of my talk with Mr. R. Martin Holland, honorary secretary of the London Clearing Bankers Association, on the subject of the London Clearing House, and check collections. It is the best I can do in the short time at my disposal just now and supplements what I sent you last week. It is hardly necessary to elaborate it with a detail which is considerably complicated by reason of the immense system of branch banks, but the principle underlying the whole scheme is clear enough, and, of course, substantially what the governors of the Federal Reserve banks recommended to the Federal Reserve Board.

I am sorry not to be able to write you fully about other matters, but they will keep until I reach New York. No change in my plan about sailing April first. The weather here is beastly—rain every day without exception, and as the principal part of my work has now been done I am taking it a bit easier, putting in a little time with Captain Symington at squash, etc. Willard Straight turned up yesterday together with Jim Perkins's brother. I dined Monday night with Grenfell, of Morgan, Grenfell & Company; Mr. Farrar, of Baring Brothers, and Mr. Norman, who is now giving about all of his time the Bank of England, having retired from Brown, Shipley & Company. It was a nice party, and you would have enjoyed meeting these charming men. Last night I dined with Sir Felix Schuster, and so it goes, for I have had dinner engagements every night this week and more in prospect. Yesterday I lunched at the Bank of England with Lord Cunliffe and the directors. It was most enjoyable, and afterwards Lord Cunliffe took me all over the bank. We spent about an hour discussing our plans, with which Jack Morgan is fully familiar, and with which Lord Cunliffe is now in accord. Without going into details (unnecessary at this time) I think you are safe in telling Jack that, subject to some discussion with the directors of the bank, and, of course, subject to our own consideration of the matter at home, Lord Cunliffe agrees on all the points which Jack and I discussed when he was in London. Of course, the actual conduct of any transactions must await our determination as to whether it is feasible to undertake any business abroad until after the conclusion of the war. We will talk that over when I get home.

I have been exceedingly interested in many discussions of the bill business, and without reviewing it let me say that, generally speaking, our various monographs on that subject to Washington are borne out in every particular by result of my inquiries here—I refer particularly to the question of finance bills.

My eyes are beginning to develop a strong habit of turning to the west, for I am longing to get home. It would have been a mistake, however, to shorten my trip by sailing even on the 24th.

Best regards to all in the office, and I am greatly indebted to you for your cables. I sent you a brief cable last evening as per attached copy.

With kindest regards, believe me,

Sincerely yours,

——— ———.

EXHIBIT No. 2461

[The New York Times, Feb. 18, 1916]

BANK AGENCIES WILL WAIT—BENJAMIN STRONG IS ARRANGING FOR FOREIGN BRANCHES

WASHINGTON, D. C., Feb. 17.—Denial was made today by the Federal Reserve Board of the published statement that Benjamin Strong, Jr., Governor of the Federal Reserve Bank of the New York district, had gone to England on a mission for the Board.

The idea that he would take steps to arrange for the establishment of agencies of the Federal Reserve bank system in Europe was denied.

The Reserve Board has power to establish such agencies, but it is the policy of the Board, it was stated, to defer action on this matter until after the war when conditions have become normal.

No apprehension is felt among members of the Reserve Board as to the stability of the gold accumulations in the United States because it is expected that when the war is over there will be a demand on this country for a long time for materials and machinery necessary to the rebuilding of Europe.

EXHIBIT No. 2462

[The New York Evening Mail, Sept. 20, 1916]

KITCHENER SAW GERMAN VICTORY UNLESS U. S. AIDED THE ALLIES, HE TOLD W. CAMERON FORBES

EX-GOVERNOR OF PHILIPPINES STARTLED REPUBLICAN DINERS WITH STORY OF CONFERENCE

Lord Kitchener of Khartoum, the great British war minister who was lost when the cruiser *Hampshire* was sunk off the Orkney Islands, went to his death with the conviction that Germany could not be defeated.

This astonishing information was made public by W. Cameron Forbes, former Governor of the Philippines, at a recent dinner of Republican leaders. Gov. Forbes told the diners that Lord Kitchener had stated to him that it was his belief that without the aid of America the Allies could never conquer the German armies.

The great war chief of England expressed this opinion in the course of a conference with Gov. Forbes, and Benjamin F. Strong, of the Federal Reserve Board, in London *last winter* (1915–1916). It was because of this conviction that Lord Kitchener arranged the meeting—to urge Gov. Forbes and Mr. Strong to throw the weight of their influence in this country on the side of the Allies.

Gov. Forbes and Mr. Strong were expressly invited to confer with Kitchener as quasi-official members of the American Government. And Gov. Forbes held the diners spell-bound for the best part of an hour as he told them of the arguments and reasons that the master-warrior of England advanced to show why the cause of the Allies was the cause of the United States.

The breaking off of diplomatic negotiations with Germany was the immediate step he pleaded for.

His principal argument was what he called German militarism and German weltmacht were inherently inimical to the ideals of Anglo-Saxon democracy—that England and France, democratic in the roots of their being, were fighting the world-fight of democracy against militaristic autocracy, and in that fight the U. S., the greatest of all republics, could not afford to stand by idle and witness at the best a drawn battle between those forces on which her institutions rest and the forces incompatible with her ideals.

TALKED FOR TWO HOURS

Gov. Forbes said that the conversation lasted nearly two hours, and his telling of it made a profound impression on his hearers. It was repeated for days and, according to Gov. Forbes, it was considerably garbled in the retelling.

He was quoted as having stated that Lord Kitchener said that "The Germans might be crowded back on their own lines and much more to this general effect."

"Kitchener did not say anything of that sort", Gov. Forbes told a reporter of the Evening Mail. "I do not feel that it would be proper for me, under the circumstances, to give a detailed story for the press about my conversation with Lord Kitchener. Much of it had to do with the relations between the United States and England after the war and the effect of the United States breaking off diplomatic relations with Germany."

EXHIBIT No. 2463

ESTES PARK, COLO., *September 29th, 1916.*

DEAR MR. JAY: The weekly report of September 21st also contains some newspaper clippings, one being a half column from the Evening Mail about a talk that W. C. Forbes gave at some dinner party about our interview with Lord Kitchener. I had always had a great respect for Cameron Forbes' judgment and ability, but after having seen quite a little of him in London and heard of some of his performances since returning from Europe he strikes me as being a great blunderer.

The interview with Kitchener was the result of a long talk that Kitchener had with Fred Wolcott, who was over there representing the Rockefeller Foundation. Kitchener's aide, Colonel Fitzgerald, called me on the telephone and asked if I would stop at his office and bring Cameron Forbes with me, which I did, and we had an exceedingly interesting talk with him. After leaving, Forbes thought it would be a good plan to write out the interview. He dictated the account, and I went over it and made some changes, and then he agreed that the best thing we could do would be to "can" it. Since coming home at least half a dozen men have spoken to me of this interview, and now Forbes has finally succeeded in getting it in the press. I do not know whether he wants to advertise himself or whether he is just a plain, indiscreet fool. It made me mad to read the article.

The same weekly report contains Mr. Jefferson's account of the mistake that was made in the account of the gold-settlement fund. This illustrates the importance of our recommendation made nearly a year ago that the agent's fund and the bank's fund be separated physically as well as on the books. Don't you think this can be brought about so as to avoid any chance of dispute as to who might be liable for any loss incurred? This error demonstrates that the present system is bad.

Sincerely yours,

——— ———,

PIERRE JAY, Esq.,
Federal Reserve Agent, Federal Reserve Bank,
New York City

BS/VCM.

EXHIBIT No. 2464

[Copy of telegram]

DH44 CH AQG 210 BLUE

CX DENVER, COLO., *March 23rd*—11:40 a. m.

J. F. CURTIS,
Federal Reserve Bank, New York:

Telegram received; suggest cabling Cunliffe substantially as follows quote we suggest the following four changes in revised memorandum of March nineteen sixteen: First, omit references in opening sentence and in paragraph twelve to conclusion of war as we propose earlier start; second, omit provision in paragraph six for earmarking gold only at convenience of debtor institution so that account will be definitely on a gold basis but debtor institution will be protected by understanding that it shall name in advance the limit of gold obligation to be incurred; third, omit change in paragraph ten with respect to word voluntary so as to conform to last suggestion; fourth, omit words if so agreed in paragraph twelve under same understanding as in our second suggestion. As we contemplate transaction as soon as proposed arrangement ratified, it is necessary in present circumstances to define understanding that obligations will be met in gold if not otherwise settled, but we would expect you in advance of operation to place the limit which you desired upon the amount of gold obligation which you would incur. All other changes satisfactory; we will await your reply by cable to above suggestion before revising memorandum and of cable; please mail copy of cable as finally sent.

BENJAMIN STRONG.

653 P.

EXHIBIT No. 2465

AGREEMENT WITH THE BANK OF ENGLAND

FEDERAL RESERVE BOARD,
Washington, May 29, 1916.

DEAR MR. WARBURG: I enclose copy of a confidential letter just received from Governor Strong. You will notice his suggestion at the end that the Federal Reserve Board give immediate consideration to the matter.

Sincerely yours,

[sgd.] C. S. HAMLIN.

Hon. PAUL M. WARBURG,
Federal Reserve Board.
Enclosure.

EXHIBIT No. 2466

Federal Reserve
Board File 310

AGREEMENT WITH THE BANK OF ENGLAND

MAY 23RD, 1916.

[Confidential]

MY DEAR GOVERNOR HAMLIN: When I was last in Washington I left a copy of a confidential memorandum covering my' conversations with the Governors of the Bank of England with Mr. Delano in order that it might be available for subsequent discussion and such action as the Board considers desirable.

There are a number of principal points for consideration in this connection:

(a) Paragraph E of section 14 of the Federal Reserve Act authorizes Federal Reserve banks to open and maintain banking accounts in foreign countries, appoint correspondents, etc., "with the consent of the Federal Reserve Board."

The plan suggested by the memorandum cannot, therefore, be put into operation without the formal authorization of the Federal Reserve Board, which, as I read the statute, should cover the opening and maintaining of a bank account and the establishment of the Bank of England as our correspondent in England.

(b) For reasons which I expressed in some detail while in Washington, it is my opinion, absolutely necessary that the purchase of foreign bills and the operation of banking accounts in foreign countries by the twelve Reserve banks should be conducted as one account. I shall not attempt to repeat the explanation made in Washington, except to say that if the account is to be managed in that way,, it should be done under a sufficiently binding agreement so that when the necessity arose for really protective measures to be undertaken to save this country from a drain of gold the entire burden will not fall upon the Federal Reserve Bank of New York. I regard this feature of the Federal Reserve Act as one of the most important and far-reaching in its effects, so much so that, as I stated to Secretary McAdoo, if the other Reserve banks decide not to participate in the arrangement, we would nevertheless undertake it ourselves, provided our board of directors authorizes us to do so.

(c) The question of neutrality involved must, it seems to me, be taken into consideration by your Board when giving or withholding its consent to the appointment of the Bank of England. I have never believed that a Federal Reserve bank is a Government institution in the sense that it would implicate the United States Government in an unneutral transaction, if our relations with the Bank of England were considered to be unneutral. Furthermore, the Bank of England is a private institution, and in no sense a part of the British Government. It is probably less so than we are, although, as you know, it is the principal fiscal agent of the Government in the management of its domestic financial affairs.

(d) The wisdom or unwisdom of undertaking investments in foreign bills at the present time depends, of course, entirely upon the degree of security afforded by the arrangement made with the Bank of England. After making a very careful study of conditions in England and France, I became convinced that the opening of accounts and purchase of bills abroad during the continuance of the war would not be justified by the Federal Reserve banks unless we were especially protected by an engagement on the part of the Bank of England in England and the Bank of France in France to liquidate our accounts in gold, if we require it. No other bank is able to make as effective a gold engagement as is the Bank of England, it being the custodian of the gold of the nation.

(e) There is no occasion at the present time to consider operations, but occasion may arise, however, some time in the fall and I would like to be prepared before that time arrives. Conditions may alter materially and we might feel unwilling to undertake any transactions, notwithstanding that the arrangement was concluded in all particulars.

(f) Whether we undertake any business abroad before the conclusion of the war or not, it seems to me important that the Federal Reserve Act should be amended so as to provide that Federal Reserve banks may receive accounts from such correspondents as they may appoint abroad, otherwise, it would be difficult for us to make the relationship effective.

May I ask the Board to give consideration to the desirability of acting upon this matter in order that I may continue correspondence with the Bank of England and the Bank of France and, if necessary, submit the matter to the governors of the twelve Reserve banks?

Your Board has been advised of the character of the arrangements already established with the Bank of the Netherlands and we are now in correspondence with the Javasche Bank with a view to establishing somewhat similar relations with that bank. You further understand that Mr. Warburg has discussed tentatively with the Banco de la Nacion Argentina the possibility of the establishment of a relationship with them. Our business with each of the institutions named will vary considerably, but it may be desirable for the Board to consider at this time the whole subject of foreign correspondents and whether it may not be advisable to authorize the appointment of the banks named as our correspondents for the purpose of such business as we may be transacting with them from time to time.

I beg to remain,
Respectfully yours,

——— ———, *Governor.*

Hon. C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BSJr.VCM

EXHIBIT No. 2467

FEDERAL RESERVE BOARD,
Washington, July 21st, 1916.

MY DEAR "BEN": I hope you have had salubrious weather in Colorado; that you survived the journey; that you have escaped the heat; and that you are laying on a few pounds here and there where they will not do you any harm.

I have been thinking a good deal about your Bank of England proposal and trying to figure out how I can overcome the difficulty that Warburg (the only member of the Board who is really well posted upon the subject) points out. Finally the thought has suggested itself to me that I should submit the plan to some high-grade, disinterested man, and have him criticize and endorse it; and that I could then use that endorsement, not only to sustain my judgment, but to present the matter to the Board.

I think Warburg would be willing to waive the responsibility and to have the matter handled during his absence—say during August; but I could not win the votes of my colleagues on the Board, especially the more cautious ones, unless I could show that some person entirely competent and expert in such matters had endorsed the plan. This perhaps will explain how my mind has been running, and in casting about for some one to consult, the names of George Blumenthal, Max May, and John Gardin have occurred to me.

While I do not know much about him, my impression is that the first named is best; but upon inquiry as to where he was and how I could get hold of him, I find that he is now out in California, traveling, and at last accounts was at the Del Monte Hotel, Monterey, and does not expect to be back in New York until September first. Hence the thought has occurred to me (as an alternative from my first thought) that you might get into communication with Blumenthal and ask him to stop off on his was East. If he would do so, and you could thereby fully explain the situation to him, he could come here and make his recommendation to me.

My present plan is to be away the first 10 days of August, returning here for the rest of the month, and going away again early in September, when Miller and Warburg will be back again "on the job." However, I could postpone my going away for a few days in order to see Blumenthal.

The merit of the whole scheme depends, of course, upon your views and conclusions, and I simply throw this out for you to think over and advise me.

Yours very truly,

(Signed) F. A. DELANO.

Mr. BENJAMIN STRONG, Jr.

EXHIBIT No. 2468

[Excerpt of letter]

ESTES PARK, COLO., *July 26, 1916.*

[Personal]

Hon. F. A. DELANO,
% Federal Reserve Board,
Washington, D. C.

MY DEAR FRED: In regard to the Bank of England arrangement, I am about completing a memorandum which will be first sent to the office and then to the Board. It is not as complete, nor as well prepared as I would like to have it, but a good deal of data bearing on the matter is in New York and not available to me. In time, the question is as you say to get a thorough understanding of the whole situation in the minds of all your colleagues. The suggestion you make about consulting some of those who have dealt with these matters for some years past has advantages and disadvantages both. All three of the names you mention are well posted and capable of giving excellent advice, but the difficulty is that they are all in one way or another interested, and some of them, if not all, may be influenced by selfish views.

The first name is the head of a firm that conducts the largest dealings in gold of any firm in the country in normal times. The second one for various reasons I would not consider at all, and the third one has always impressed me as being bull-headed and narrow. On the whole, if really broadminded and intelligent opinion is desired by the Board, I would strongly recommend Frank Vanderlip, of the City Bank, Fred Kent, of the Bankers Trust Co., and Alexander, of the Commerce. They are sufficiently familiar with the technical features of this business to be able to give a well-considered opinion and they are all of them broad-minded enough to set aside any personal interest or selfish purpose. The man you name first is undoubtedly the most experienced, but, personally, if I were in New York, I would hesitate to expose my hand to him at the present time.

Another suggestion is that Jack Morgan's opinion should be obtained. You have that already informally, but as he is a member of the counsel and is probably better posted today on the international situation than any other New York banker, it seems to me, if outside opinions are to be obtained, his is essential both for valuable information and as a matter of courtesy.

Should it seem desirable to carry out your plan of consulting Blumenthal and you will be good enough to wire me in time, I will communicate with him by telegraph and see if we cannot arrange a meeting either here or in Denver.

If by any chance you can get out here for a little holiday early in August, it would be a great delight to me and we might be able to coax Charley Norton to come too. By that time I will be a good deal stronger and able to join you in a little recreation. If you have never been here, this country is well worth seeing.

With warmest regards to you and to your colleagues, I am,

Faithfully yours,

——— ———.

EXHIBIT No. 2469

BANKERS TRUST COMPANY,
16 Wall Street, New York, July 8, 1915.

Mr. BENJAMIN STRONG, Jr.,
Governor, Federal Reserve Bank,
62 Cedar Street, N. Y.

DEAR BEN: After the New York State Bankers Convention, I realized that probably your letter of the 18th was written for the purpose of checking some of the ideas you expected to use in the most admirable address which you made at Saratoga. Have consequently been much chagrined to think that I could not get a chance to answer you. I assure you it was no fault of mine, but was due to the fact that matters of the Trust Company requiring immediate attention absolutely swamped me, and I actually was at a loss to know which way to turn. Because of this instance I was unable to reply at once. I hope you will not hesitate to write again, should occasion require, for it is always a pleasure for me to co-operate with you in every possible way.

Your idea concerning drawings by English banks is an excellent one. Several months ago I wrote to Sir Edward Holden, outlining the whole plan, and advising him that the Bankers Trust Company would be most pleased to accept their drafts. They have never made use of the privilege, however, and I think that they are entirely right in not doing so. The reason I feel this way is because the main value, in so far as exchange alone is concerned, in carrying out such propositions lies in having drawings made at a time of high exchange, with the expectation of having them mature at a time of low exchange. When drawings operate in this manner, it means both a convenience and a profit. Under the conditions prevailing during the past several months and the probable developments in the future, it is more or less of a dangerous expedient. For instance, suppose 90 day dollar exchange had been issued when sterling was 4.80, and had to be met with sterling at 4.76, you can readily see that the exchange loss would be quite heavy. As to the future, the same dangers would seem to exist, and to even a greater extent.

Confidentially, with monthly deliveries running throughout the balance of the year for goods already contracted for amounting to an excess over imports to this country of, say, $100,000,000, or thereabouts, it is hardly conceivable that sufficient foreign loans can be placed here to protect the exchange. Just where it will fall to, no one can guess, for with a constant debit balance, rates assume merely nominal values. Should a month come when Europe cannot meet its payments for deliveries being made, there is no telling what might not happen to exchange. You may have noticed that every time a French loan has been placed in this market, French exchange has dropped. While this has seemed more or less anomalous, yet it is in reality a natural process. Until each loan has been announced, the exchange market has been buoyed by the uncertainty of the amount, and as to whether it would meet the requirements, but as soon as announcement has been made of the amount, it has been recognized as falling so far short of the needs that exchange has immediately dropped.

Confidentially again, would say that I have done my utmost to get the British Government to float loans in this country at a sufficiently higher rate of interest than loans placed in Britain, to offset the exchange discount, and making them free from British income tax. When in Washington, I had a long talk with the Ambassador from Great Britain, Spring Rice, and I believe that he fully agreed with me. It was then, however, long after the matter should have been looked after, in my judgment. Borrowing in Britain at low rates of interest, and using the proceeds to purchase available exchange, was to my mind a silly proceeding, and was certain to lead to ruinous exchange rates, for the reason that the purchase of exchange by the proceeds of loans obtained in Britain did not add one cent to dollar exchange, but merely made it possible to buy up the floating supply, which has not been sufficient and will not be sufficient to anywhere meet requirements. My theory was that loans at higher rates, free from income tax, could have been placed with far greater ease in this country while exchange was nearer normal and the public was not beginning to fear British credit, and it seemed to me the only possible way of meeting a bad situation. A loan placed in this country now of, say, $300,000,000 would only take care of the exchange situation for the next 60 or 90 days, as far as I can judge from the way orders have been placed and deliveries are to be made. Not having seen the actual aggregate of such figures, however, I recognize that I may be wrong as to the length of time such a loan would take care of the situation. As the whole proposition is a Government one, you can readily see why the English banks would naturally refuse to draw at 90 days sight upon American banks, and take the chance of their customers being able to pay them for the dollar exchange when the drafts come due. Of course, as we approach the end of the war, a time is going to come when the operation might be most profitable, but unless contracts already made are repudiated, even at the close of the war, exchange is not going to rebound to par in a minute.

There are many other angles to the situation that are, to my mind, very serious, and while I have presented them to the British Government, yet I have not, for the public good mentioned them to others. It seems wrong to unnecessarily disturb business men with such matters as long as there is a possibility of their working out.

This month I am staying in Hartsdale, taking my vacation. Must be near the office for a number of reasons, and can telephone from here without difficulty. Regretting the delay in writing you, and with sincere regards, I am

Cordially yours,

(Signed) Fred.

Exhibit No. 2470

Estes Park, *August 13, 1916.*

Dear Mr. Curtis: Yours of the 9th has just come, and I hasten to reply, as our time is getting short now in which to conclude the Bank of England matter for this fall. Your comments on the memo give me new courage. I feared the thing was a daub, and have been wondering for some time whether my head piece was working as it should. As to your points:

1st. I think, but am not sure, that par. "c" is as good authority as we need, save for the reference to "member banks", which is awkward. Have marked the M. S. so as to include both references, but defer to your opinion.

2d. Has been changed as you suggest.

3d. Ditto.

4th. Ditto, but where in the Nat. Bk. Act the word "duties" is found, stumps me. Hope you are correct, and leave it to you.

5th. Has been changed as you suggest.

6th. The enclosed insert (1) will, I hope, meet your views. If too long, boil it down. The argument is really a good one.

7th. I have divided your suggestion into inserts (2) and (3) as they are distinct subjects, and hope you will polish them up. They are very rough, but I'm willing to stand on both.

One or two other suggestions:

1. Will ask you to insert the no. of sec. of the Revised Statutes left blank on p. 7. It is the sec. which provides that the redemption fund be covered into the general fund and bank notes paid out of the general fund.
2. Two new corrections appear on p. 14.
3. The enclosed is my last copy. Possibly a good many copies should be struck off now, for use in sending to other governors, and in Washington, so will you send me a final copy as soon as possible.
4. This should reach you by Wednesday, a. m. If you can squeeze in time to run over to Washington and see McAdoo before the Boston meeting, it would be an excellent plan. He is already in favor of going ahead, but if you go, be sure and see Delano. The delay will arise thru Warburg's absence, and he should either leave the matter *entirely* to his associates or have opportunity to study the matter fully. The former is his wisest course.
5. Personally I see no ground for submitting to the State Department, but of that the Board must decide. If they *do* submit it, try and have it done informally, and if that Department demurs, we may be obliged to see Lansing or Polk ourselves.

6. Might as well take the draft of plan of operations, and show that to McAdoo also, as he was the one asked me to prepare it.

7. Unless objection arises in Washington, hope you and Mr. Treman will start the discussion of this matter at Boston conference, impressing importance of maintaining confidential character of whole matter. I would be discredited in London if it got out. The same applies in Washington. If good progress is not made in Washington it may be safer to defer discussion with governors.

8. It's time we pushed this matter to a conclusion, and I hope Delano will take it up actively, getting such advice as he needs if he finds it necessary. I suggest Woodward, Morgan, Vanderlip, Alexander, Kent as the best and safest.

Please pardon this hasty scrawl. I'm lost until Mrs. McLaren arrives. Tell Mr. Treman I have his letter on this subject and hope the above program meets his views. Will write him shortly.

My best thanks to you for your help. This matter is important, and I'm keen, as you know, to see it concluded.

Yours,

[Signed] B. S.

EXHIBIT No. 2471

[Excerpt of letter]

AUGUST 28, 1916.

MY DEAR GOVERNOR: * * * With reference to our foreign arrangements, I went to Hartford to see the secretary last Wednesday, he being in the midst of a tour to hold hearings in connection with the establishment of Federal farm-loan banks. I only had a very brief interview with him, but it was sufficient to get his point of view and also some valuable suggestions. I think he is wholly favorable to the plan as outlined in your memorandum and also to its being put in operation as early as practicable, although he did not definitely commit himself on either of these points. He threw out a suggestion (of course, wholly without meaning to have it taken as advice and not to be quoted) that it might be well to omit from the memorandum all references to the question of neutrality, and he also thought that it would be advisable to make our application as brief as possible. Messrs. Aiken, Wold, Treman, and myself thereafter took the matter up with Harding and Delano, who had each been given a copy of your memorandum and who knew of my trip to see the secretary, and it was decided by all hands to be advisable to have any references to matters of neutrality omitted from the memorandum. Both Harding and Delano are definitely favorable to the scheme and, I think, seem in doubt only as to the time when it should be put in operation. There was some indication that it should not be before the first Tuesday following the first Monday in November, but I doubt if this magical date will have much influence in the matter. * * *

Yours sincerely,

——— ———.

BENJAMIN STRONG, Jr., Esq.,
The Lewiston Estes Park, Colo.

JFC/PE.
Encs. (2).

EXHIBIT No. 2472

AGREEMENT WITH THE BANK OF ENGLAND

FEDERAL RESERVE BANK OF NEW YORK,
August 28, 1916.

SIRS: In accordance with the provisions of paragraph (e) of section 14 of the Federal Reserve Act, the Federal Reserve Bank of New York hereby respectfully makes application for the consent of your Board to open and maintain a banking account with the Bank of England, a private corporation established under the laws of the United Kingdom of Great Britain and Ireland and having its principal place of business in London, England, and to appoint the said Bank of England its correspondent and to establish the said Bank of England its agent in the said United Kingdom.

Accompanying this application is a memorandum prepared by Governor Strong of this bank, outlining the reasons for submitting the application at this time.

Respectfully,

(Sgd.) R. H. TREMAN, *Deputy Governor.*

FEDERAL RESERVE BOARD,
Washington, D. C.

JFC/PE.

EXHIBIT No. 2473

AGREEMENT WITH THE BANK OF ENGLAND

[Excerpt from the minutes of the Federal Reserve Board, meeting of Aug. 29, 1916]

The formal application of the Federal Reserve Board of New York for authority to open an account with the Bank of England was presented and discussed. The Governor of the Board read a memorandum prepared at his request by Mr. J. F. Curtis, counsel for the Federal Reserve Bank of New York.

The following resolution was offered by Mr. Warburg and agreed to by the Board:

"That it is the sense of the Board that an agreement substantially along the lines of that submitted by the Federal Reserve Bank of New York, should be authorized: *Provided, however,* That the right to be reserved to the New York Bank under section 9 of the proposed agreement to commence operations before the conclusion of the war, be not exercised without further authority from the Federal Reserve Board; And, *provided further,* That a committee of three shall first take up the matter with the Department of State and report to the Board that the Department of State sees no impropriety in its granting such authority."

Mr. Warburg also offered the following resolution, which was adopted by the Board:

"That the committee of three to take up the questions above outlined with the Department of State consist of the chairman and Governor of the Board and Mr. Hamlin, the Governor to have the power to fill any vacancy."

EXHIBIT No. 2474

[Excerpt of letter]

[Confidential]

AUGUST 31, 1916.

MY DEAR GOV: In order to keep you up to date on our foreign matters, I give you a brief sketch of what has happened since I last wrote you.

I went to Washington Monday night to see the Board, as I already have written you in my letter of August 28th. Mr. Warburg and I went down on the same train and I showed him a copy of the memorandum I was taking to the Board and also told him of the steps already taken. While he was reading the memorandum, he looked up and said, "You know I wrote this section originally for Senator Aldrich and it was taken bodily from the Aldrich bill and put into the Federal Reserve Act, and now I suppose the Board will tell me what it means." As I was under the impression also that such an event was likely to occur, I made no reply.

On Tuesday morning I went to see Harding and presented him with the various documents; also a copy of the Kains' report, which I am enclosing herewith, and we had a little chat on the subject. He showed me a letter he had just received from McAdoo, stating that he thought the matter was of such importance that before official action was taken, it should be taken up informally with the State Department, which I think is wise on his part, although a slight reversal from what he told me at Hartford. During our talk the Comptroller came in and Mr. Harding showed him the Secretary's letter, so as to make sure that they should not be getting at the subject from too many different angles.

They went into a meeting at 11 o'clock, Harding having asked me to prepare a little memorandum on the neutrality aspect of the matter for him to use if the vote came out as he expected it would—that it should be taken up with the State Department. I spent from eleven until one dictating a memorandum for him on this subject, which was in effect a rather poor imitation of the original pages in your memorandum which had been exercised.

* * * * * * *

I telephoned to Governor Harding in the late afternoon, who told me that the Board had unanimously approved of our application with two provisos.

1st. That the State Department find nothing obnoxious in the plan, and

2nd. That no actual transactions be undertaken without the further specific approval of the Board.

He and Hamlin were appointed a committee to take it up with the State Department informally, and they had an appointment to do so sometime today, Thursday, but I have not yet heard the result.

Later in the evening I ran into Hamlin at the club and I asked him what the idea was in putting in the second restriction. He said the theory of the Board was that it would be well to have the machinery all set up for doing the business, but that they were somewhat doubtful of the advisability of actually beginning transactions during the pendency of the war. I urged him very strongly to permit us to go ahead as soon as we are ready, on the ground that I knew it was your view that the way to prepare for the shock to commerce and the exchanges, which would necessarily follow the declaration of peace, was to have a lot of credits and bills already established and owned in London, so that the slack could be taken up by our selling the same. I also said that to wait until the war was over before getting into this position would be practically locking the stable door after the traditional horse. He said that anyway, their approval today will make the first step, and the Board was rather anxious to go by easy stages.

The psychology of this, I think, is easy enough to understand, especially in view of the fact that they got a unanimous vote, and it seems to me that we will be in a very strong position to begin at any time we want if, as I expect, the State Department has no objection to the plan. You will observe that our position will then be that the Federal Reserve Board will stand committed to the proposition that the principle of appointing the Bank of England our correspondent is a good one and has met with their approval, and the State Department will be in the position of not disapproving of our actually entering into transactions. Consequently, I think it would be very difficult for the Board to put themselves in the position of "hanging their clothes on the hickory limb but not going near the water."

I expect we will hear some more news on this subject tomorrow and I will write you again if this lengthy letter does not prove overpowering to you.

Yours sincerely,

——— ———.

Benjamin Strong, Esq.,
"The Lewiston," Estes Park, Colo.

JFC/CEP
Enc.

September 1, 1916.

P. S.—I have just received your telegram of August 31st with reference to our foreign arrangements. Your suggestions contained therein had already appealed to us and we have forwarded to Governor Harding a copy of the argument on the neutrality question which had been omitted from the original memorandum. This was prepared in a slightly different form and submitted as a separate memorandum, and, I understand from Mr. Jay, that it has already gone to the State Department. He will tell you also at the end of this letter what occurred in Washington yesterday. I am enclosing herewith a copy of the supplemental memorandum in the form in which it went to Governor Harding.

EXHIBIT No. 2475

801.2

AGREEMENT WITH THE BANK OF ENGLAND

AUGUST 31, 1916.

Mr. R. H. TREMAN,
Deputy Governor, Federal Reserve Bank,
New York.

SIR: Your letter of August 28th, making application in behalf of the Federal Reserve Bank of New York for the consent of this Board to open and maintain a banking account with the Bank of England, etc., has been given careful consideration by the Board. Certain questions are involved which render it impossible for the Board to give you a definite reply at this time.

The situation has been explained fully to Mr. Jay, who was here today, and he has been requested to inform you of the status of your application.

Respectfully,

(Signed) W. P. G. HARDING,
Governor.

EXHIBIT No. 2476

[Excerpt of letter]

ESTES PARK, COL., *August 31st, 1916.*

DEAR MR. TREMAN: * * * The difficulty about the submission of our foreign arrangements to the State Department through a third party, that is, through members of the Federal Reserve Board, is the one always encountered in such cases, which is a certain lack of knowledge of detail and of the technique of the matter which would lead to an incomplete submission of the question and, consequently, an unfavorable decision resulting from timidity or ignorance.

Mr. Curtis and I both know practically all the men in the State Department quite well. I refer particularly to Secretary Lansing, Mr. Polk, and Assistant Secretary Phillips, who I believe would be the one to consider this matter. Unless the Reserve Board raised objections, I should think we would be justified in arranging an appointment with Secretary Lansing and Counsellor Polk so the matter could be explained in detail and questions answered. Doubtless questions will arise which have not occurred to us and which with the memorandum in its present shape are not touched upon at all.

I do not want you to feel that I am trying to direct this matter too much from this distance. One has time to do a lot of thinking out here and I apprehend as a result, that the State Department might be disposed to sidestep their decision or make an unfavorable decision unless the members of the Department were impressed, as Secretary McAdoo is, with the importance of this plan in the interest of our own commerce and banking. The things to be urged before the State Department are: First, that the plan is developed for the protection of our own commerce and not for any unneutral purpose; and second, that in order to be effective at all, operations must commence before the war is over and while exchange is in our favor in order that we may have accumulated the means to meet conditions when they are reversed by reason of the conclusion of the war.

There seems to have been some mix-up over the amendments which I do not understand, but a telegram from Curtis yesterday stated that the amendment about "days of grace" have been favorably reported by the conference committee, so I assume that finally the matter has had attention. He will show you my letter on the subject. * * *

Very sincerely yours,

(Signed) BENJ. STRONG.

R. H. TREMAN, Esq.,
Deputy Governor, Federal Reserve Bank,
Equitable Building, New York City.

BS/VCM

EXHIBIT No. 2477

[Copy]

[Personal and confidential]

ESTES PARK, COL., *August 31st, 1916.*

DEAR JACK: It will soon be five months since I was in London discussing the preliminary outline of our proposed arrangements with the Bank of England, and have no doubt that Lord Cunliffe and his associates may now be wondering whether there is any possibility of a final conclusion of the matter, particularly, as they know that I am ill in Colorado. On that account, I am writing to advise you of the status of the matter in case inquiry should be made of you.

On my return from Europe, the following things had to be done before it was possible to make any move towards starting the arrangement in operation:

1. The Federal Reserve Act had to be amended so as to authorize Reserve banks to purchase bills having 90 days to run, "exclusive of days of grace" (the words quoted not appearing in the statute in section 14, under which we get our power to buy foreign bills).
2. A second amendment was desirable authorizing us to receive deposits and act as correspondent for banking institutions which we appointed as our correspondents in foreign countries. (Otherwise, any funds held for such institutions would have to be in the form of earmarked gold.)
3. It was necessary to obtain the approval of the directors of the Federal Reserve Bank of New York.
4. It was necessary to obtain the consent of the Federal Reserve Board.
5. It was probably necessary to get some sort of approval or disclaimer of interest from the State Department.
6. It was necessary to formulate some plan by which all 12 of the Reserve banks could operate together under the direction of the Federal Reserve Bank of New York.

The status of the above matters is at present as follows:

1. I am just advised that the amendment as to days of grace has been incorporated in the recommendations made by the conference committee of the House and Senate, and if that is correct, the amendment will undoubtedly pass at this session.
2. The same applies to the amendment in regard to our receiving accounts for foreign institutions.
3. The directors of the Federal Reserve Bank of New York have approved the plan.
4. The Federal Reserve Board has unanimously consented to the plan.
5. No action has yet been taken by the State Department.
6. The scheme for management of the account for the 12 Reserve banks has been laid out and I think will be adopted, subject to modifications in details.

You will gather from the above that if, as I anticipate will be the case, the final necessary approvals are received and the bill now before Congress is signed by the President, it will become possible for us to actually put the arrangement into effect some time this year.

On account of your relations with the bank in New York, as well as your part in the negotiations in London it seems desirable that you should be fully posted as to the progress in this matter, and if you think the situation justifies it, possibly you would be willing to cable or write Lord Cunliffe indicating that progress is being made, although it has necessarily been slow.

I doubt if the bank in New York will be disposed to undertake transactions, notice and approval of which must first be conveyed to the Board in Washington, without my giving an unqualified recommendation to do so, and outlining somewhat the character of the bills to be purchased. Before doing so, I want the best opinions I can get in regard to how well fortified the sterling exchange position is for next fall.

As nearly as I can gather, the present import point of gold is somewhere between $4.76 and $4.77, and I am going to give you my best guess as to the present exchange situation, asking you if you will correct it so far as you feel able and willing to do so and give me your own views as to what may transpire this fall.

I surmise that France now has a total credit in New York unused, created by the recent loan of $100,000,000 and by various commercial credits of which I have been advised, aggregating possibly $100,000,000 in all. I also surmise that the proceeds of the sale of the English notes, together with the unused $50,000,000 bank credit, gives England a total drawing account in New York today of $300,000,000, not counting some of the gold recently imported and which I judge has not yet found its way into bank reserves. I would, also, suppose that England has, unused but available, American and other securities which can be converted and used as collateral in this market, amounting to anywhere from $100,000,000 to $200,000,000. I would, also, assume that Russia had considerable credits here as to the amount of which I would not hazard a guess. In all, let us say that there is $500,000,000 available, possibly more, for us to meet the fall demands. This is, of course, a magnificent preparation, but still I have some doubt whether it will be sufficient to meet the enormous demands which will certainly be made upon us during the present period of the offensive movement. and possibly, in preparing for a more extensive movement next year, if, as I surmise, these three nations are to continue to purchase our raw materials, etc., in anything like the volume which the Government reports indicate. It also seems likely that there will be a large movement of cotton this fall and at pretty substantial prices. In view of the above, which I admit is largely supposition, I have not modified my feeling that the interests of our banks and our exporters may require that the arrangements with the Bank of England be put into operation this fall.

I would very much appreciate your writing me, in confidence, if necessary, the best expression of your own views which you can give me.

Of course, we would not undertake the purchase of exchange, except at some margin below the gold import point, and I would appreciate also the best calculation you can give me of the cost of gold imported from England at the present time by an American bank, independent, of course, of the operations of the British Government, where special facilities and special arrangements for transportation may be made which would result in a cost quite different from that applying to the cost to an American bank.

Please pardon this long letter, but I am so far from home and out of touch with matters that I need the best information you can send me before going any further with our plans.

I hope you are well. Unfortunately, I have been laid up for the past week, but hope to be around again in a few days.

My warmest regards to you and your partners.

Sincerely yours,

——— ———.

J. P. Morgan, Esq.,
23 Wall Street, New York City.

BS/VCM.

Exhibit No. 2478

[Copy]

23 Wall Street, New York,
September 7, 1916.

Dear Ben: I have been very much interested in your letter of August 31st. In regard to your summing up of the exchange situation, you are a little short of various facts, owing to your absence:

First. The French have spent pretty well all the money they have here. There are some commercial credits, and they hope to make more, which will give them perhaps forty or fifty million dollars if they get them; but the French exchange situation is not as good as you put it in actual dollars, but has been much bettered by the recognition on the part of England that they have got to help out if necessary.

In regard to British credit, it is more difficult to say. They had made short time and call loans here for a considerable amount, to pay off which was the first use made of the recent $250,000,000 transaction. The $50,000,000 bank credit has been used. On the other hand, they are at the moment shipping vast amounts of gold, which you guessed rightly has not yet entered the bank reserve situation. This amounts to some seventy odd millions, so far advised. England has a larger amount of possible collateral than you have figured on, but to what extent I do not know.

I think the gold importing point is now somewhere about 4.75½, owing to cost of freight and the large insurance. The British Government does not intend to allow exchange to go far below this, and I think it will succeed in this attempt, in which we all wish to help as much as possible. That being the case, however, your operation will really have to take the shape of an interest operation, more than an exchange operation, although there may be a substantial rise in exchange in the spring.

The requirements for raw materials show no signs of falling off, and they evidently expect the war to go on for another year. On the other hand, the Bank of England rate is now 6%, which may influence you in the decision in regard to bills. I do not think that it is worth while for me to advise. If the Federal Reserve bank is going to take any steps under your arrangement, I should think a month or six weeks from now would be quite time enough to do it, by which time we should be able to measure the question of domestic demand for money. So far as I see now, that demand is much less than ever before at this time of the year, owing to the Western and Southern banks being extremely flush of money. For your information a New Orleans bank, which ordinarily at this time of the year borrows all it can get from its New York correspondent, requested that New York correspondent to lend some money for it at 90 days, and 6 months (this about two weeks ago). That is only an indication, but it is a pretty strong one to my mind.

I am, personally, very well, but much concerned to hear you have been laid up. Please telegraph me when you get this letter that you are better.

For your confidential information, Davison is now on his way to London, and I shall follow him in about two or three weeks. I am, naturally, not saying very much about it as yet, but it will give me an opportunity of seeing Cunliffe, and I can impart your mind to him, if you wish me to do so.

All going along very well here, and the English loan has been a tremendous success. We are much encouraged by it.

With best regards and wishes for your prompt recovery, I am,

Yours very sincerely,

J. P. MORGAN.

BENJAMIN STRONG, Esq.,
The Lewiston, Estes Park, Colorado.

EXHIBIT NO. 2479

[Copy]

ESTES PARK, COLORADO, *September 12th, 1916*

DEAR JACK: * * * Replying specifically to your letter: I think I realize some of the difficulties about the French exchange. It has always seemed to me that the Government was putting too great a burden on the Bank of France, and that the Bank of France was too timid in consequence about letting gold go out of the country. In other words, they should, if possible, shrink their note issue and ship more gold. This means larger Government loans, repayment of advances made by the Bank of France, and the consequent reduction of note issues.

On the whole, I suppose the policy of letting gold come to this country through England is wiser and strengthens their position all around, but so long as they are doing that, it mans that England must bank for France and give France a ratable share of the benefits resulting from the use of French gold which, in turn, enables the negotiations of large English credits here.

Of course, whatever operations we could undertake under the terms of the proposed account would be small in total, compared to the total requirements, and it would be a very flexible account and could be made one of the means of stabilizing exchange, rather than specifically a drawing credit, and, after all, the proposed account is to create machinery for steadying exchange rates, having an eye to conditions after the war is over, just as much, if not more, than present conditions. It is all in the interest of our exporters, and some day I guess that will be fully realized.

The general plan in my mind was to keep in as close touch as possible with the factors which affect the figure at which gold can be profitably imported and accumulate exchange at or below that rate until we have reached a point where we have created as large an account as we thought wise, most of which would be invested in prime bills. The accumulation of the amount of exchange agreed upon would take place only on occasions where exchange was very weak and, naturally, the account would continue a fairly constant one until the time came when the exchanges turned permanently, when the whole operation will be transferred to the other side. In other words, it might be an investment account running for one, two, or three years before any change of position takes place.

What you say about money conditions is exceedingly interesting. The banks throughout the West are all flush so far as I can tell, and if imported gold is held in reserve and deposited only when our surplus at New York shows signs of a sharp reduction, I should think we could get past this fall without any high money rates at all.

I notice by the newspapers that Davison has sailed and am much interested to hear that you are also sailing in a few weeks. Won't you give my warmest regards to our mutual friends in London, particularly Grenfell, Lord Cunliffe, Montague Norman, Brian Cokayne, and the others with whom I had the pleasure of many most interesting meetings?

With warmest regards to you and your partners, I am,

Very sincerely yours,

BENJAMIN STRONG.

J. P. MORGAN, Esq.,
23 Wall Street, New York City.

P. S.—I would appreciate your taking opportunity, if convenient, to explain to Lord Cunliffe the present situation in regard to our negotiations and the necessity for more delay than I had anticipated by reason of my absence. The amendment bill has passed both houses of Congress and will be signed by the President.

EXHIBIT No. 2480

[Excerpt of letter]

PULPIT HARBOR, NORTH HAVEN, MAINE,
September 14th, 1916.

DEAR BEN: * * * P. M. W. had rather a hectic time this summer and not altogether a happy solution in all respects. We carried our fight on rotation far enough to prevent the designation of Hamlin, but we did not get rotation by seniority of terms, not by favor, as we had hoped. That was McAdoo's fine Italian hand.

* * * * * * *

The foreign (English) arrangement is still in statu quo. McAdoo suggested going to the Secretary of State and I was the only one left to say it was quite unnecessary. I presume Lansing will hold the matter up till after the election, but anyway he promised me informally not to turn it down without giving me a chance to discuss it with him. Harding (now Governor of the Board) is strong in favor of the deal and I think we shall certainly put it through, but it does take an infernal amount of time. Your letter answering P. M. W.'s objections I thought was excellent; but P. M. W. while superficially favorable is at heart unfavorable to the scheme and it makes it hard. I think McA. would have said as he did a year ago that the matter did not need action by the State Dept.—had it not been that he wanted without saying so that it should be deferred till after November 4th. * * *

Yours always,

(Signed) FREDERICK A. DELANO.

EXHIBIT No. 2481

[Excerpt of letter]

Estes Park, Colo., September 22nd, 1916.

DEAR FRED: * * * I have had a very deep feeling of sympathy for Warburg this summer. He seems to have been heckled on every side. The outcome of the fight for rotation struck me as being a complete breakdown, except that it established some particular principle. The natural procedure would have been to appoint you Governor and Warburg Deputy Governor. Why, or how, it was not done really beats me. I did not have the nerve to write you on the subject, but did ask Warburg in a recent letter to tell you for me that if you continued to stand by, as I knew you would, it would encourage all of us and I hope he gave you the message.

* * * * * * *

I am terribly discouraged about the English arrangement. It looks as though Lansing were rolling the matter along. If he could only be convinced that it is a matter of serious importance to the banking interests of this country—much more serious, in fact, than it is on the other side—he might be disposed to look at it differently. If you or Harding, or both of you, have opportunity to discuss the matter with the State Department, I hope you can take it up with Frank Polk, as well as with the Secretary. We must some way or other get this concluded, or advise the Bank of England that it must await the conclusion of the war, which would be altogether too bad.

Of course, this has been gall and wormwood to Warburg. I can't help sympathizing with his reluctance to see the arrangement concluded before the war is over. On the other hand, had there been no war, I feel that he would have viewed the arrangement with exultation. It is so distinctly favorable to the Federal Reserve System. On the whole, it may have been wise to take it up with the State Department, but I am sorry that it was thought necessary to do so.

* * * * * * *

Just one more word about Warburg: I have not the slightest reason to doubt his loyalty in every way. Men of his race are very strongly swayed by sentiment and influenced by very active imaginations. His sentiment with regard to the war is naturally a difficult obstacle in the way of some of our negotiations, and I think he is trying conscientiously to ignore them. On the other hand, I can realize that his imagination opens up a picture of scorn and abuse that may be heaped upon him by relatives, friends, and old countrymen, in case it becomes known that we are dealing with the Bank of England, which it will be very difficult for him to face. He probably would find it a cause of reproach in his immediate family. We are all human enough to be influenced by these considerations, and they certainly affect him much more than they would a cold-blooded Anglo-Saxon. What Warburg needs is the influence of friendship and encouragement and he will come along in fine shape. He has a very warm regard for you, and I believe you have more influence with him than any other member of the Board. * * *

Faithfully yours,

—— ——.

Hon. F. A. Delano,
1128 Sixteenth Street, Washington, D. C.
BS/VCM.

EXHIBIT No. 2482

[Copy]

FEDERAL RESERVE BOARD,
Washington, October 5, 1916.

Mr. Pierre Jay,
Chairman, Federal Reserve Bank, New York.

Dear Mr. Jay: Referring to the subject of our conversation on Tuesday afternoon, I have to report that the matter is still in the hands of the State Department, and there is no immediate prospect of getting a favorable ruling. In fact, I believe that if the matter should be forced, the decision would be unfavorable, so I would advise that you find some way to temporize, either by writing your friends on the other side asking about some matters of detail, or in such other way as you can. Meanwhile I will watch the situation closely at this end and push for action at the earliest opportune moment.

Very truly yours,

(Signed) P. M. Warburg.

EXHIBIT No. 2483

FEDERAL RESERVE BANK OF NEW YORK,
October 7, 1916.

DEAR GOVERNOR STRONG: When Mr. Curtis and I were in Washington on Tuesday we took up with Mr. Harding the question of the matter now pending before the State Department. He promised to see whether the matter could be expedited in any way, and I have just received the enclosed letter from him to which I have replied as per enclosed copy.

I do not believe there is any use agitating the matter again for another month or six weeks. At that time we shall certainly take it up vigorously and see if we cannot bring the matter to a favorable conclusion. I had urged upon Governor Harding the desirability of prompt action in order that the matter might not be allowed to grow cold across the water, and it is to this that he refers when suggesting that you should write your friends on the other side about matters of detail, etc.

Very truly yours,

(Signed) PIERRE JAY, *Chairman.*

BENJAMIN STRONG, Esq.,
The Lewiston, Estes Park, Colorado.

PJ/RAH.
Encs. (2).

EXHIBIT No. 2484

ESTES PARK, COLO., *October 11th, 1916.*

DEAR MR. JAY: * * * Your letter about the State Department correspondence indicates that you were going to enclose a copy of a letter from the Department. It only covered a letter from Warburg addressed to you and copy of a letter which you addressed to Governor Harding, of the 5th and 7th, respectively. I do not like the way that matter is going at all. Our whole foreign situation seems to be hung up pending dilatory procedure by the State Department and Warburg's prognosis of an adverse decision can be very readily dealt with by arranging for Mr. Curtis to meet Mr. Polk, as I understand Secretary Lansing is not very well. This is a matter which should be discussed informally before any formal ruling is made, and I sincerely hope that it will be done.

I shall write the Bank of England a letter that will keep the matter alive, of course, but it seems sort of a puerile position for a great institution to assume, and I very much regret its necessity.

B. S.

EXHIBIT No. 2485

FEDERAL RESERVE BANK OF NEW YORK,
October 19, 1916.

DEAR GOVERNOR STRONG: * * * With regard to the Bank of England matter, I feel personally that it would be inadvisable to try to have Curtis see Polk or to do anything about it until after election. That is only two and a half weeks away. After that time I feel that the subject can probably be discussed on its merits and will be a welcome instead of as at present an unwelcome subject, and that our chances of success will be much greater if we have a little patience. I expect to be over in Washington next week at a meeting of the executive committee of the Reserve agents, and will make inquiries as to whether there is any progress or any damage being done by laches.

I understand from Mr. Kenzel that the Whitney Central National Bank has given us all the information we require. * * *

Faithfully yours,

(Signed) PIERRE JAY.

BENJAMIN STRONG, Esq.,
4100 Montview Boulevard, Denver, Colorado.

PJ/RAH
Enc.

Exhibit No. 2486

[Excerpt of letter]

4100 Montview Boulevard,
Denver, Colorado, October 23rd, 1916.

[Personal]

My Dear Fred: * * * Have you been able to impress upon the State Department the merits of the proposed foreign arrangements? We ought to be making progress; and if Messrs. Lansing and Polk will give us a favorable reply, I think it would be possible to conclude the arrangement in London and, possibly, in Paris at a very early date. * * *

——— ———.

Hon. F. A. Delano,
Federal Reserve Board,
Washington, D. C.

BS/VCM.

Exhibit No. 2487

[Excerpt of letter]

Federal Reserve Bank of New York,
October 23, 1916.

My Dear Gov.: * * * With respect to our foreign business, I agree with you that some pressure on the Department of State should be exerted, but I don't think there is really any use in attempting anything before election; and, on the other hand, I think it will probably do more harm than good. I am convinced that the administration has had plans for "twisting the lion's tail" which would have been brought off about now had it not been for the appearance of the *U-53*, which made a little change in sentiment. However, it isn't all over yet, and a peremptory threat to use the powers granted to the President under the new revenue act addressed to Great Britain may still be issued before the fifth of November. If my diagnosis of their frame of mind is correct, they would not be likely to listen to our plans, no matter how reasonable or unconnected with their points of view such plans might be. * * *

Yours as ever,

(Signed) J. F. C.

Benjamin Strong, Esq.,
4100 Montview Boulevard, Denver, Colo.

JFC/PE.
Encs. (2).

Exhibit No. 2488

[Copy]

Denver, Colorado, *October 24th, 1916.*

Dear Mr. Jay: * * * My suggestion for having Curtis see Polk about the English arrangement was to enable us to get a line informally prior to the final decision on what their attitude is and to leave the matter in such shape that we could make our own representations directly to the State Department rather than through members of the Federal Reserve Board. That, I regard, as exceedingly important and really necessary in order to ensure a favorable decision. Election is now so near that nothing could be accomplished by pressing the matter, and my letter meantime to Cokayne (recently sent to Mr. Treman) will keep the ball rolling. * * *

Sincerely yours,

——— ———.

Pierre Jay, Esq.,
Federal Reserve Bank,
New York City.

Exhibit No. 2489

[Excerpt from letter]

Denver, Colorado, *October 30th, 1916.*

[Personal]

My Dear Judge: * * * Of course, nothing can be done now with the State Department until after election, but thought that knowing Frank Polk as you do, it might be possible to have an unofficial and informal chat with him explaining the proposed business in a personal way and prepare his mind for a later onslaught. I would almost risk a trip to Washington myself at this season to put up a strong fight rather than risk having the arrangement vetoed. * * *

Sincerely yours,

——— ———.

J. F. Curtis, Esq.,
Federal Reserve Bank,
Equitable Building,
New York City.

BS/VCM.

Exhibit No. 2490

Palmetto Inn,
Aiken, South Carolina, Dec. 20th.

Dear Ben: * * * Today I received an unopened letter from the Board marked "confidential", and forwarded from the office. It contained our magna charter, under seal, as follows:

Voted that the Federal Reserve Bank of N. Y. be authorized to appoint as its correspondent and agent the Bank of England, of London, England, and that it be further authorized to open and maintain banking accounts with and for said correspondent and agent for the purpose of purchasing, selling, and collecting bills of exchange in accordance with the provisions of section 14 and other provisions of the Federal Reserve Act, as amended; and for such other purposes as may be permitted under said Federal Reserve Act, as amended.

I hereby certify that the above is a true extract from the minutes of the meeting of the Federal Reserve Board held on Tuesday, December 19, 1916.

[seal] H. Parker Willis, *Secretary.*

That seems pretty satisfactory, doesn't it? I don't altogether agree with you about the Board showing distrust of your intelligence and intentions. I think that they in common with all Washington merely had that pre-election fear of rocking the boat. Six weeks before election Harding predicted to me the exact action which Lansing actually took as soon as election was over; * * *

Yours,

P. J.

Exhibit No. 2491

MEMORANDUM OF CONVERSATION WITH BENJAMIN STRONG AT ESTES PARK, COLORADO, DECEMBER 26, 1916

At about 6 p. m. we got Mr. Strong on the wire. He said he had received our telegram and one from Jay and was much disturbed over the action of the Board. I told him the details of our information and lack of information, including the substance of our talks with Harding, Delano, and De Neuflize. He advised the following course of action:

1st. To get Jack Morgan to cable his partner in London to see Lord Cunliffe at the bank and explain to him the chagrin felt by the officers of this bank over the premature publication of this matter and get a line from Lord Cunliffe as to what action he would like to have us take in order to set the situation straight. After receiving a report back through Morgan, we could then prepare an appropriate cablegram direct.

2nd. To send a formal letter of protest to the Board, quoting the original understanding between Strong and the officers of the Bank of England as to publicity and making our position very plain.

3rd. To send a cablegram to Pallain of the Bank of France and straighten out that matter in the course of a few days.

4th. He agreed that in the meanwhile it would be wise for us to issue no public statement from the bank.

5th. As soon as we had straightened the publicity matter out with the Bank of England, we should proceed at once to have our tentative understanding made into an actual one and arrange with them for the simultaneous publication of our own statements.

I told him we had called a meeting of the executive committee for tomorrow afternoon, at which we had asked all the other directors within reach to be present, and hoped to get a formal vote with regard to the Board's action, instructing us to protest against it.

He said he would be in care of Charles E. Howes in Estes Park until Saturday and would like to be kept informed of the progress of events.

I told him that I thought it was quite likely that the Board's action was partly due to a desire to help out Mr. Wilson's foreign policies and take away from the pro-German impression created by the last few public announcements.

He felt that it was unwise for the Board to have consulted with the British Ambassador, as we have been endeavoring to keep this matter away from any aspect of international diplomacy, etc., but he thought it would be wise, as long as the Board had already done so, for me to get in touch with the Ambassador and find out for ourselves how the land lay. I told him I hardly knew the Ambassador well enough to call him on the telephone and thought that perhaps we had better let the matter rest till we heard more through the Morgan connection, to which he assented.

JFC/CEP

("Exhibit No. 2492" appears in text on p. 8251)

Exhibit No. 2493

66XXX/116

J. P. Morgan & Co.,
Export Department,
New York, Dec. 27, 1916.

[Copy of telegram despatched 10 p. m. to Morgan, London]

33815. For E. C. Grenfell. You will have seen that the Federal Reserve Board yesterday published the authority for the Federal Reserve Bank of New York to make an arrangement with the Bank of England. This is simply the formal statement of authority granted and has nothing to do with the terms or conditions of the arrangement, but both Strong, who is away ill, and the officers of the Federal Reserve Bank of New York ask if you will be kind enough to express to the Governor their chagrin and regret at the premature publication by the Federal Reserve Board, which was made without their knowledge and which is, of course, contrary to the spirit of the last clause in the agreement between Strong and the Governor. The Federal Reserve bank officials have issued no statement as yet and before making one would like to learn the Governor's wishes in this connection, since they desire greatly to do nothing which could in any way embarrass the Governor or the bank. They earnestly hope that no inconvenience has resulted from the Board's action, which was made without consultation with them. They would not for the world have had this happen in this way and want the Governor to know it.—J. P. Morgan.

Morgan.

(28575 received after departure J. P. Morgan.)

EXHIBIT No. 2494

[Copy of telegram received 12: 45 p. m. from Morgan, London]

66XXX/116

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 28, 1916.

28581. For J. P. Morgan. 33815. The Governor surmised exactly what had happened and was in no way put out by the premature announcement, nor does he consider that it need interfere with the continuance of discussion as to the terms eventually to be submitted to the respective boards, but he thinks it would now be best neither to contradict the announcement nor to confirm or explain it, but to let the matter rest exactly as it is for the present.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2495

[Copy of telegram]

C10AG D 83

GB NEW YORK, *Dec. 28, 1916—6:23 p. m.*

PIERRE JAY,
Palmetto Inn, Aiken, S. C.:

Cable advices from abroad indicate that parties surmised what had happened and were not put out by premature announcement. They think it would now be best to make no further announcement or explanation, but to let matter rest for the present. We have not asked Board for explanation. We agree on advisability of your spending Tuesday in Washington. Suggest you do not mention to Board our foreign cables; have decided not to act on French matter for a few days.

J. F. CURTIS.

EXHIBIT 2496

[Excerpt of letter]

DENVER, COLO., *April 19, 1917.*

MY DEAR NORMAN: I have wanted for some time past to write you some expression of my satisfaction and happiness in feeling that the restraints of neutrality need no longer apply to our correspondence and friendship.

* * * * * * *

This is the situation towards which I was confidently looking forward when I was in London last year and I am happy now to think that my best hopes are being realized and that we are with you heart and soul and with every resource that the country can provide. * * *

Sincerely yours,

——— ———.

MONTAGUE C. NORMAN, Esq.,
Care Bank of England,
London.

BS/CC.

EXHIBIT No. 2497

[Cablegram]

LONDON 67, *June 1, 1917.*

[Private]

BENJAMIN STRONG,
Governor Federal Reserve Bank, N. Y.:

If English bankers decide to pay off their fifty million dollars loan from New York banks maturing twentieth instant would it be agreeable if we earmark approximately eleven million pounds gold here on bullion basis for your bank and ask you to pay equivalent at mint par on that date to Vanderlip for committee of American lending banks?

BRIEN COKAYNE.

EXHIBIT No. 2498

BANK OF ENGLAND,
June 2, 1917.

DEAR MR. STRONG: Our bankers here wish to pay off the loan of $50,000,000 maturing on the 20th instant which was made to them in December 1915 by a committee of American banks under the presidency of Mr. Vanderlip. They have therefore offered to sell our Government the equivalent amount of gold here if it will undertake to pay off the loan, the idea of course being that such gold could be shipped to make exchange for the payment in the United States.

But it occurred to me that, if agreeable to you, this would be an admirable opportunity of utilizing our new agreement with you for obviating unnecessary shipments of the metal, although it is not precisely the form of operation for which that agreement was devised. I therefore took the liberty of telegraphing to you personally yesterday as follows:

"If English bankers decide to pay off their fifty million dollars loan from New York banks maturing twentieth instant would it be agreeable if we earmark approximately eleven million pounds gold here on bullion basis for your bank and ask you to pay equivalent at mint par on that date to Vanderlip for committee of American lending banks."

I now await your reply to this which I hope will be favorable, and it only remains for me to add that if and when this lot of gold should require to be shipped across, the expense of doing so should in my judgment be borne by us, as the earmarking is not done for your benefit but is the equivalent to our shipping gold "to make exchange."

I am right, am I not, in assuming that it is the equivalent of a shipment, i. e., that you will be able to include in your reserve gold so earmarked here?

I have read with great pleasure your charming letters to Norman and most cordially share your pleasure that our two countries are arm in arm. May they ever remain so.

I am pleased to hear that your son is coming over to the seat of war and hope very much to have a chance of seeing him.

Trusting that your health is now quite restored and that you will be careful not to overtax it again.

Yours very truly,

(Signed) BRIEN COKAYNE.

BENJAMIN STRONG, Esq.

FMF.

EXHIBIT No. 2499

[Cablegram]

FEDERAL RESERVE BANK OF NEW YORK,
New York:

We agree your telegram of June 12th received in plain language. Pay Vanderlip National City Bank June 20th $52,500,000, equivalent to 10,787,899 pounds 19s. and 4 d., taking mint par 4.86656348. We shall set aside equivalent sovereigns at bullion value June 20. Full particulars by letter. Confirm by telegraph. Nineteen.

BANK OF ENGLAND.

Your cable commencing word "we" ending word "nineteen" received. We confirm arrangement.

FEDERAL RESERVE BANK OF NEW YORK.

EXHIBIT No. 2500

[Copy of telegram sent to all Federal Reserve banks with appropriate amounts—sent by RMC/EEB]

NEW YORK, *June 19, 1917.*

FEDERAL RESERVE BANK OF BOSTON,
Boston, Mass.:

Referring arrangement Bank of England account covered by recent correspondence. Federal Reserve Board has given written ruling earmarked gold can be counted as reserve and transaction therefor has been consummated with Bank of England and will go through books June twentieth. Federal Reserve Board desires following uniform accounting: Under resources on your books open account, following silver coin, to be called Bank of England sterling gold account, but in statement for public the account should be called sterling gold account; the words Bank of England to be left out. Tomorrow we will charge your collected funds account three million five hundred thousand, the amount of your participation, which you are to credit the Federal Reserve Bank of New York for settlement through the gold fund Wednesday, debiting the Bank of England sterling gold account. Earmarked gold will be maintained at least until after last payment of Liberty Loan is made August thirtieth and reserve conditions then can be ascertained.

FEDERAL RESERVE BANK OF NEW YORK.

Charge.

EXHIBIT No. 2501

JUNE 20, 1917.

SIRS: We enclose herewith copy of letter we are sending to the Federal Reserve banks which have taken a participation in the transaction just consummated with the Bank of England, which we trust may meet with your approval. The Bank of England has earmarked £10,787,899 19/4 in sovereigns, which at the mint par of $4.86656348 is the equivalent of $52,500,000. The Bank of England assumes all risk and expense that might be incurred in shipping this gold to New York should we require that they do so.

The participations in the account taken by the several Federal Reserve banks are as follows:

F. R. B. of—	*Amount*
Boston	$3,500,000
New York	19,750,000
Philadelphia	3,500,000
Cleveland	4,500,000
Richmond	1,750,000
Atlanta	1,500,000
Chicago	7,000,000
St. Louis	2,000,000
Minneapolis	2,000,000
Kansas City	2,500,000
Dallas	1,750,000
San Francisco	2,750,000
Total	52,500,000

It was our desire and intention to submit this matter to you before, but we were obliged to work out the detail by cable and were only able to prepare the letter to-day, the date the transaction had to be consummated in order to meet the maturing loan of the London joint-stock banks.

Respectfully,

——— ———, *Governor.*

FEDERAL RESERVE BOARD,
Washington, D. C.

RMG/MSB

EXHIBIT No. 2502

Foreign Relations, 1914 Supp. p. 216
763.72112/48a

The Secretary of State to the Ambassador in Great Britain (Page)

[Telegram]

DEPARTMENT OF STATE,
Washington, August 6, 1914, 1 p. m.

You are instructed to inquire of the British Government whether they are willing to agree that the laws of naval warfare laid down by the Declaration of London, 1909, shall be applicable to naval warfare during the present European conflict, provided that the governments with whom Great Britain is or may be at war also agrees to such application. You will further state that this Government believes that acceptance of these laws by the belligerents would prevent grave misunderstandings which may arise as to the relations between belligerent and neutral powers. It, therefore, earnestly hopes that this inquiry may receive favorable consideration.

BRYAN.

EXHIBIT No. 2503

The Department of State; Policy of the United States Toward Maritime Commerce in War

Prepared by Carlton Savage, Division of Research and Publication

VOLUME I—1776–1914 (pp. 112–113)

THE DECLARATION OF LONDON

The Declaration of London of February 26, 1909, was signed by the delegates of the United States. The fate of the declaration was prejudiced by the adverse vote of the British House of Lords in December, 1911. Ratification was advised by the United States Senate on April 24, 1912, but it was not ratified by the President.

Stipulations of the Declaration of London important in connection with this study were as follows:

1. *Blockade.*—"In accordance with the Declaration of Paris of 1856, a blockade, in order to be binding must be effective,—that is to say, it must be maintained by a force sufficient really to prevent access to the enemy coastline." A blockade must not extend beyond the ports and coasts belonging to or occupied by the enemy; neutral vessels were not to be captured for breach of blockade except within the area of operations of the blockading warships, and "Whatever may be the ulterior destination of a vessel or of her cargo, she cannot be captured for breach of blockade, if, at the moment, she is on her way to a non-blockaded port."

2. *Contraband of war.*—The following articles could, without notice, be treated as absolute contraband: arms of all kinds; munitions; military clothing and equipment; saddle, draught, and pack animals; armor plates; warcraft and component parts; and "Implements and apparatus designed exclusively for the manufacture of munitions of war, for the manufacture or repair of arms, or war material for use on land or sea."

The following articles could, without notice, be treated as contraband of war under the name of conditional contraband: foodstuffs; forage; clothing, fabrics for clothing, and boots and shoes, suitable for use in war; paper money and gold and silver in coin or bullion; vehicles of all kinds available for use in war; floating docks and vessels, craft, and boats of all kinds; railway, telegraph, and telephone material; aircraft; fuel and lubricants; powder and explosives not specially prepared for use in war; barbed wire and implements for fixing and cutting the same; horseshoes and shoeing materials; harness and saddlery; and field glasses, telescopes, chronometers, and all kinds of nautical instruments.

Articles exclusively used for war could be added to the list of absolute contraband by a declaration, and articles susceptible of use in war could be added to the conditional list in the same manner. Absolute contraband was liable to capture if shown to be destined to territory belonging to or occupied by the enemy, or to the armed forces of the enemy. It was immaterial whether the carriage of the goods was direct or entailed transshipment or a subsequent transport by land. Conditional contraband was not liable to capture except when found on board a vessel bound for territory belonging to or occupied by the enemy, or for the armed forces of the enemy, and when not to be discharged in an intervening neutral port.

The following articles could not be declared contraband of war: raw materials of the textile industry and yarns of the same; copra, oil seeds and nuts; rubber, resins, gums, and lacs; hops; raw hides and horns, bones and ivory; natural and artificial manures; metallic ores; earths, clays, lime, chalk, stone, including marble, bricks, slates, and tiles; chinaware and glass; paper and paper-making materials; soap, paint, and colors; bleaching powder, soda ash, caustic soda, salt cake, ammonia, sulphate of ammonia, and sulphate of copper; agricultural, mining, textile, and printing machinery; precious and semiprecious stones; clocks and watches, other than chronometers; fashion and fancy goods; feathers of all kinds, hairs, and bristles; articles of household furniture and decoration; office furniture and requisites.

Exhibit No. 2504

Foreign Relations, 1914 Supp. p. 218
763.72112/111

The Ambassador in Great Britain (Page) to the Secretary of State

[Telegram]

American Embassy,
London, undated.
[*Received August 26, 1914, 9.15 p. m.*]

483. My 461 and yours of August 24. Following text of Foreign Office note regarding Declaration of London, together with explanation and order in council, telegraphed as instructed.

Foreign Office,
(*London*), *August 22, 1914.*

On the 7th instant you were so good as to address to me a note inquiring, pursuant to instructions from the Secretary of State at Washington, whether His Majesty's Government (were) willing to agree that the laws of naval warfare, as laid down by the Declaration of London, 1909, should be applicable to naval warfare during the present European conflict, provided that the governments with whom Great Britain is at war, or with whom her relations are not normal, also agree to such application.

Your excellency added that it was (the) belief of your Government that the acceptance of these laws by the belligerents would prevent the possibility of grave misunderstandings (as) to the relations between belligerents and neutrals.

I have the honor to inform your excellency that His Majesty's Government, who attach great importance to the views expressed in your excellency's note and are animated by a keen desire to consult so far as possible the interests of neutral countries, have given this matter (their) most careful consideration and (I) have pleasure in stating that they have decided to adopt generally the rules of the declaration in question, subject to certain modifications and additions which they judge indispensable to the efficient conduct of their naval operations. A detailed explanation of these additions and modifications is contained in the inclosed memorandum.

The necessary steps to carry the above decision into effect have now been taken by the issue of an order in council, of which I have the honor to inclose copies herein for your excellency's information and for transmission to your Government.

I may add that His Majesty's Government, in deciding to adhere to the rules of the Declaration of London, subject only to the aforesaid modifications and additions, have not waited to learn the intentions of the enemy governments, but have been actuated by a desire to terminate at the earliest moment the condition of uncertainty which has been prejudicing the interests of neutral trade.

I have (etc).

E. A. Crowe.

[Memorandum]

1. The lists of contraband already published by His Majesty are substituted for those contained in Articles 22 and 24 of the Declaration of London. Lists similar to those published by His Majesty have (already) been issued (by) the French Government.

2. His Majesty's Government do not feel able to accept in its entirety the rule laid down in Article 38 of the declaration. It has been the practice of the British Navy to treat as liable to capture a vessel which carried contraband of war with false papers if she was encountered (while) on the return voyage, and to this exception His Majesty's Government feel it necessary to adhere.

3. The peculiar conditions in the present war due to the fact that neutral ports such as Rotterdam are the chief means of access to a large part of Germany and that exceptional measures have been taken in the enemy country for the control by the Government of the entire supply of foodstuffs have convinced His Majesty's Government that modifications are required in the applications of Articles 34 and 35 of the declaration. These modifications are contained in paragraphs 3 and 5 of the accompanying order in council.

4. Article 15 of the declaration contains a provision as to presumptive knowledge of the blockade incertain cases if the vessel has sailed from a neutral port. No mention is made of British or allied enemy ports. These omissions are supplied by Article 4 of the order in council.

5. The order in council also provides for the acceptance of the very valuable commentary on the declaration which was embodied in the general report prepared by Monsieur Renault.

Following is text of order in council:

AT THE COURT AT BUCKINGHAM PALACE, THE 20TH DAY OF AUGUST, 1914, PRESENT, THE KING'S MOST EXCELLENT MAJESTY IN COUNCIL

Whereas during the present hostilities the naval forces of His Majesty will cooperate with the French and Russian naval forces; and

Whereas it is desirable that the naval operations of the Allied forces so far as they affect neutral ships and commerce should be conducted on similar principles; and

Whereas the Governments of France and Russia have informed His Majesty's Government that during the present hostilities it is their intention to act in accordance with the provisions of the convention known as the Declaration of London, signed on the 26th day of February, 1909, so far as may be practicable;

Now, therefore, His Majesty, by and with the advice of his Privy Council, is pleased to order, and it is hereby ordered, that during the present hostilities the convention known as the Declaration of London shall, subject to the following additions and modifications, be adopted and put in force by His Majesty's Government as if the same had been ratified by His Majesty.

The additions and modifications are as follows:

(1) The lists of absolute and conditional contraband contained in the proclamation dated August 4, 1914, shall be substituted for the lists contained in Articles 22 and 24 of the said declaration.

(2) A neutral vessel which succeeded in carrying contraband to the enemy with false papers may be detained for having carried such contraband if she is encountered before she has completed her return (voyage).

(3) The destination referred to in Article 33 may be inferred from any sufficient evidence, and (in addition to (the) presumption laid down in Article 34) shall be presumed to exist if the goods are consigned to or for an agent of the enemy state or to or for a merchant or other person under the control of the authorities of the enemy state.

(4) The existence of a blockade shall be presumed to be known—

(a) To all ships which sailed from or touched at an enemy (port) a sufficient time after the notification of the blockade to the local authorities to have enabled the enemy government to make known the existence of the blockade;

(b) To all ships which sailed from or touched at a British or Allied port after the publication of the declaration of blockade.

(5) Notwithstanding the provisions of Article 35 of the said Declaration, conditional contraband, if shown to have the destination referred to in Article 33, is liable to capture, to whatever port the vessel is bound and at whatever port the cargo is to be discharged.

(6) The general report of the drafting committee on the said declaration presented to the naval conference and adopted by the conference at the eleventh plenary meeting on February 25, 1909, shall be considered by all prize courts as an authoritative statement of the meaning and intention of the said declaration, and such courts shall construe and interpret the provisions of the said declaration by the light of the commentary given therein.

And the Lords Commissioners of His Majesty's Treasury, the Lords Commissioners of the Admiralty, and each of His Majesty's Principal Secretaries of State, the President of the Probate, Divorce, and Admiralty Division of the High Court of Justice, all other judges of His Majesty's Prize Courts, and all governors, officers, and authorities whom it may concern are to give the necessary directions herein as to them may respectively appertain.

ALMERIC FITZROY (for)
American Ambassador

EXHIBIT No. 2505

F. R. 1914, Supp. pp. 356–7–8
File No. 611.419/81

THE PROPOSED "WORKING ARRANGEMENT" WITH GREAT BRITAIN

The Ambassador in Great Britain (Page) to the Secretary of State

[Telegram]

AMERICAN EMBASSY,
London, December 6, 1914, 7 p. m.
[*Received December 7, 8:30 a. m.*]

1199. More than a fortnight ago I took up with Sir Edward Grey the possibility of making some comprehensive working arrangement whereby the two Governments might remove as many as possible of the trade and shipping difficulties that the war has developed. After discussion, he proposed that an effort to formulate such an arrangement be made by Anderson for us and for him by representatives of the several departments of British Government that have to do with these questions. These gentlemen have had many conferences and Sir Edward and I have discussed it three times. Our conference yesterday (lasted) practically the whole afternoon. I contended especially for the lifting of the embargo on the various products which we are prohibited from importing which it seems to me would be a concrete and substantial gain. In the proposed arrangement we have secured this contention except as to wool;—and they promise to take up wool as soon as their own military demands are satisfied.

They contended for a considerable number of concessions, some of which it would be difficult, if not impossible, to grant. We secured the elimination from the proposed arrangement of all the concessions they asked except our at least negative support of their demand that cargoes, especially of copper, shall be consigned to some definite consignee and not to the shipper nor to order. The practice of consigning to the shipper or to order is an innocent and convenient and valuable commercial practice in time of peace when no government cares to whom any cargo belongs or whither it is bound, but they contend that in time of war this method is used to conceal real ownership and real destination of contraband goods. They ask that we refrain from supporting complaints of shippers about detention of cargoes based on this ground only. This leaves us all rights as now of making claims for wrongful detentions of these cargoes as well as of any others whatever. They claim to have definite proof that all copper in Germany or that is shipped into Germany is controlled by the Government for military use and my information is that no neutral Government (in) Europe disputes this. They cite the very high price of copper in Germany as confirming their contention. I hear from independent trade sources that the imports of copper into some of the countries contiguous to Germany has in the last four months been very far in excess of any previous annual importation. Great Britain will in any event continue to treat copper as absolute contraband. They claim also to have proof that many apparently neutral firms and companies in neutral (countries) contiguous to Germany are really German buying agents. They asserted that they have no wish to interfere with bona fide neutral trade and that they have taken and will take no action but what is necessary to prevent contraband trade under the guise of neutral. Every interference with what is proved to be real neutral trade they will take as now at the risk of damages.

The proposed working ararngement can be ended by either party at any time. The text of it, which in this final form was prepared by them and accepted by Grey, follows. Grey hopes it will be acceptable to you and the President.

After conversations with the Principal Secretary of State for Foreign Affairs and with representatives of the Departments of State concerned full assurances have been given that the British Government is earnestly desirous of making arrngements calculated to diminish the interference with the bona fide trade between the United States and neutral countries.

It is not desired to press the Government of the United States to make any declaration of policy with regard thereto; the object is merely to secure good offices of that Government in carrying out the arrangements indicated in this statement and in insuring that exports from America are correctly and fully described on the manifests and bills of lading.

It is pointed out that since the outbreak of war a change has been made in the practice whereby evidence of contents of manifests was available at ports of shipment in the United States. The consequence has been that the information disclosed therein had been withheld, with the unfortunate result thenceforth that additional activity has had to be displayed in visiting, search, and detaining ships in order to discover the real nature of the cargoes. It has also transpired that contraband goods have been shipped either with false and simulated descriptions or with no description whatever. This has been particularly the case with rubber, and, in addition, there is some evidence that the facilities given for the shipment of cotton without hindrance is inducing consignor to mix copper with the cotton (copper packed in cotton). It is the opinion here that such practices as these are dangerous and damaging to honest trading and are sure to restrict trade and create bad feeling. The British Government trust that they may have the administrative assistance of the Government of the United States in putting a stop to such proceedings.

In this connection it is clear that the greatest importance is attached to stopping copper from reaching enemy territory. Great Britain has no wish to come into any conflict with the copper producers in America who desire to carry on a bona fide trade with neutral countries, but it is keenly felt that the United States Government ought to give its whole support to an endeavor to prevent fraudulent trade through American ports, and should also refrain from supporting the complaints of traders based on the ground that there is no right to detain copper merely because it is destined for the enemy territory.

Some part of the difficulties surrounding the treatment of copper has now disappeared, as there is evidence that the German Government has assumed control of all the copper in or entering Germany, and it is hoped that if copper is openly addressed to bona fide consignees in neutral countries, the risk of such detention will be greatly minimized as negotiations are well advanced with most of the neutral countries contiguous to the enemy states to insure easy trade conditions in such countries, subject to prohibition of export therefrom.

Should the Government of the United States find itself able to act on the lines herein described, the British Government will gladly negotiate for the grant of permits for the exportation from Great Britain and its colonies to the United States, of rubber, hides, jute, plumbago, manganese, ferromanganese, chrome, tungsten ore, and other ingredients of steel, on receiving assurances that these articles will not be reexported from the United States in their waste, crude, or raw form, and that bloom or ingots of steel and manufactured rubber and leather articles (to be limited to a specific list), will not be exported to countries at war with Great Britain or to neutral European countries from which Great Britain has not secured satisfactory guarantees against reexportation of such articles. This limitation would not, however, interfere with exportation of any of these articles to Great Britain for distribution from there to neutral countries under the limitations imposed by British law.

Effect would be given to these proposals by granting licenses to the agents in Great Britain of American steel, rubber, and leather trades; such licenses to contain stipulations and provide for necessary securities. The British Government has already been in communication with trade representatives and finds that such a scheme is feasible and would be satisfactory to them.

The remarks made at the beginning of this memorandum as to the good offices of the American Government would apply equally to the arrangements made in.

respect of all the articles that become the subject of license to export to America, and which are not to be reexported.

As soon as the British Government hear that the arrangements herein proposed are acceptable to the United States Government, British officials will be instructed to interview applicants for licenses and to grant permits without delay.

December 5, 1914.

AMERICAN AMBASSADOR.

("Exhibit No. 2506" appears in text on p. 8260)

EXHIBIT No. 2507

F. R. Supp. 1914, p. 422
File No. 611.419/33a

The Acting Secretary of State of the Ambassador in Great Britain (Page)

[Telegram]

DEPARTMENT OF STATE,
Washington, November 3, 1914.

454. American interests greatly desire lifting of embargoes on wool and rubber. Inquire as to grounds on which these embargoes rest and whether shipments might be allowed to this country from United Kingdom, its colonies and settlements.

LANSING.

File No. 611.479/23a

The Acting Secretary of State to the Consul General at Sydney, Australia (Bray)

[Telegram]

DEPARTMENT OF STATE,
Washington, November 3, 1914.

American woolen interests greatly desire lifting Australian embargo on wool. Inquire as to grounds upon which embargo rests and whether shipments might be allowed to United States. Importers would, if required, doubtless guarantee against reexport.

LANSING

File No. 611.46d9/a

The Acting Secretary of State to the Consul General at Singapore (Cunningham)

[Telegram]

DEPARTMENT OF STATE,
Washington, November 3, 1914.

American rubber interests greatly desire lifting Straits Settlements embargo on rubber. Inquire as to grounds upon which embargo rests and whether shipments might be allowed to United States. Importers would, if required, doubtless guarantee against reexport.

LANSING.

EXHIBIT No. 2508

F. R. Supp. 1914, p. 425
File No. 611.419/48a

The Secretary of State to the Ambassador in Great Britain (Page)

[Telegram]

DEPARTMENT OF STATE,
Washington, November 12, 1914, 5 p. m.

526. American interests deeply concerned and gravity of situation such in regard to the embargoes on rubber and hides, Department feels this should be brought to the attention of the British Government. It would seem not to the

commercial or other interests of Great Britain to pursue a policy which would cripple American manufacturers and depress British interests in the colonies. If American manufacturers are not to obtain necessary supplies, prices of American goods which British may desire will be greatly increased, if, indeed, the exportations from this country be not ultimately prevented.

Present this view to the British authorities and press for definite statement of course to be pursued by British Government respecting American supply of rubber and hides from British territory. Department will consider reasonable arrangement by American exporters to secure against reexportation from United States to enemy countries of British Government. Department earnestly hopes that permits will be allowed for all excess over needs in Great Britain.

BRYAN.

P. 427
File No. 611.46c9/8

The Acting Secretary of State to the Ambassador in Great Britain (Page)

[Telegram]

DEPARTMENT OF STATE,
Washington, November 28, 1914.

640. American steel and other interests crippled because of prohibition shipment of plumbago from Ceylon. American plumbago shippers willing to give bond to English Ambassador here, or other officer, against exportation from this country. Plumbago supply of Ceylon greater than English demand. Matter taken up with British Embassy here, which will doubtless communicate with British Government. Keep in touch with situation and discreetly inquire attitude of British Government.

LANSING.

P. 427
File No. 611.419/50

The Secretary of State to the Ambassador in Great Britain (Page)

[Telegram]

DEPARTMENT OF STATE,
Washington, December 2, 1914, 8 p. m.

660. Your November 17, 1078. American interests are greatly exercised over embargoes.

Importers declare their willingness to give guarantees against reexportation. Situation is urgent and you will urge the British Government to submit proposals for arrangement which will result in so lifting embargoes as to permit export to United States in quantities sufficient for needs of our manufacturers.

BRYAN.

("Exhibit No. 2509" appears in text on p. 8260)

EXHIBIT No. 2510

F. R. Supp. 1915, p. 664–5
File No. 611.419/539

Form of Agreement to be signed by importers of rubber from British Dominions and by manufacturers to whom such rubber is sold

RUBBER GUARANTEE

Rubber.—Ex. s. s. ______. Packages ______. Weight ______. Quality ______. Marks ______.

HIS BRITANNIC MAJESTY'S COUNSUL-GENERAL,
New York.

I beg to inform you that I have sold the rubber specified in the margin to ____________________________________, whose guarantee you will find on the back hereof, I will produce to you at any time on demand the original contracts or other documents evidencing the sale.

In consideration of your consenting to the delivery to them of the said rubber, I undertake that I will not, directly or indirectly, at any time so long as the present war continues, export any raw rubber, reclaimed rubber, or waste rubber from the United States, except to the British Dominions, and that I will not sell any raw rubber, reclaimed rubber, or waste rubber for exportation without satisfying myself that it is not intended for exportation from the United States, except to the British Dominions.

Date ----------------------------

[Reverse side of sheet]

HIS BRITANNIC MAJESTY'S COUNSUL-GENERAL,
New York.

In consideration of your consenting to the delivery to us of the rubber specified on page 1 which we have purchased from ---------------------------- ------------ we hereby give you the following undertaking, which shall remain in force so long as Great Britain is at war with any European powers:

We will not export from the United States any raw rubber, reclaimed rubber, or waste rubber, whether the same has been imported from the British Dominions or not, otherwise than to the United Kingdom or to a British Possession.

We will not sell the rubber now delivered by you to any dealer or other person or persons in the United States, but will use it for our own manufacturing purposes.

All orders received by us for manufactured or partly manufactured rubber goods to be sent to neutral European countries shall be executed from stocks maintained by us in the United Kingdom, or be executed by shipments to the United Kingdom and reshipment from there, under license to be obtained for export therefrom.

We will not execute any orders for manufactured or partly manufactured rubber goods to be sent, either directly or indirectly, to any country or state at war with Great Britain.

We will not sell any manufactured or partly manufactured rubber goods to any person in the United States without satisfying ourselves that there is no intention on his part to export, or resell the same for exportation, to any countries in Europe other than Great Britain, France, Russia, or Italy, otherwise than by shipping to the United Kingdom and reshipping from there, under license to be obtained for export therefrom.

If we export any manufactured or partly manufactured rubber goods to a destination outside Europe not being in a British Possession, we will, prior to or simultaneously with the shipment, give you particulars of the goods so shipped and their destination.

All rubber tyres exported by us or sold by us for export shall bear a distinctive name or mark, which we will communicate to you, so as to identify them as being our manufacture.

Date----------------------

EXHIBIT No. 2511

F. R. Supp. 1915. p. 667-S
File No. 21743/15

[Enclosure]

The British Secretary of State for Foreign Affairs (Grey) to the American Ambassador (Page)

Sir E. Grey presents his compliments to the United States Ambassador and in reply to his excellency's note of the 22d ultimo relative to the issue of licences for the supply of manganese to the United States Steel Products Company, has the honour to inform his excellency that his note of December 12 last stating that further licences would not be issued was based on information, received from reliable sources, that the three companies mentioned in that note had exported manganese either directly or indirectly to Germany during the latter part of last year. In view of the paramount necessity, for military reasons, of preventing as far as possible the importation of manganese into Germany, it was therefore considered necessary to restrict the issue of licences.

In view, however, of Mr. Page's note under reply, Sir. E. Grey is happy to state that no difficulty will ensue in future with regard to the supply of ferro-manganese to the United States Steel Products Company or the Carnegie Steel Corporation, subject of course to the requirements of this country, if these companies respectively will sign the guarantee forms which have now been prepared for shipments of ferro-manganese to the United States in each case in which permission is required.

A copy of the guarantee form in question is enclosed for his excellency's information.

London, March 10, 1915.

[Subenclosure]

GUARANTEE

To (a)--

In consideration of your consenting to the delivery to us of (b)-------------- ---------- tons of (c) --------------------- from (d) --------------------- we (e) --------------------- hereby give you the following undertaking, which shall remain in force so long as the present war continues:

1. We will not export from the United States any of the said (c) ---------- ---------- or any other (c) -------------------- which is now or at any other time in our possession, whether the same has been obtained from the British Possessions or elsewhere.
2. The said (c) -------------------- will be consumed in our own factories in the United States.
3. We will not export from the United States any steel in the manufacture of which the said (c) -------------------- has been employed to any place in Europe other than the United Kingdom, France, or Russia.
4. We will not sell to any person in the United States any steel in the manufacture of which the said (c) -------------------- has been employed without obtaining from him a written undertaking that the same is not to be exported from the United States, and satisfying ourselves that he will carry out such undertaking.
5. We will give notice to His Britannic Majesty's Consul-General at New York of any shipment of (f) -------------------- or steel in the manufacture of which the said (c) -------------------- has been employed to any foreign destination elsewhere in Europe.

(“Exhibit No. 2512” appears in text on p. 8261)

(“Exhibit No. 2513” appears in text on p. 8262)

EXHIBIT No. 2514

F. R. Supp. 1915, p. 157–8
File No. 763.72111/1930

The German Ambassador (Bernstorff) to the Secretary of State

[Translation]

J. Nr. A2341). WASHINGTON, *April 4, 1915.*

MR. SECRETARY OF STATE: I have the honor to deliver to your excellency the enclosed memorandum on German-American trade and the question of delivery of arms.

Accept (etc.)

J. BERNSTORFF

[Enclosure—Memorandum—Translation]

WASHINGTON, *April 4, 1915.*

The various British orders in council have one-sidedly modified the generally recognized principles of international law in a way which arbitrarily stops the commerce of neutral nations with Germany. Even before the last British order in council, the shipment of conditional contraband, especially food supplies, to Germany was practically impossible. Prior to the protest sent by the American to the British Government on December 28 last, such a shipment did not actually take place in a single case. Even after this protest the Imperial Embassy knows of only a single case in which an American shipper has ventured to make such a shipment for the purpose of legitimate sale to Germany. Both ship and cargo were immediately seized by the English and are being held in an English port under the pretext of an order of the German Federal Council (Bundesrat) regarding the grain trade, although this resolution of the Federal Council relates exclusively to grain and flour, and not to other foodstuffs, besides making an express exception with respect to imported foodstuffs, and although the German Government gave the American Government an assurance, and proposed a special organization whereby the exclusive consumption by the civilian population is absolutely guaranteed.

Under the circumstances the seizure of the American ship was inadmissible according to recognized principles of international law. Nevertheless the United States Government has not to date secured the release of the ship and cargo, and has not, after a duration of the war of eight months, succeeded in protecting its lawful trade with Germany.

Such a long delay, especially in matters of food supply, is equivalent to an entire denial.

The Imperial Embassy must therefore assume that the United States Government acquiesces in the violations of international law by Great Britain.

Then there is also the attitude of the United States in the question of the exportation of arms. The Imperial Government feels sure that the United States Government will agree that in questions of neutrality it is necessary to take into consideration not only the formal aspect of the case, but also the spirit in which the neutrality is carried out.

The situation in the present war differs from that of any previous war. Therefore any reference to arms furnished by Germany in former wars is not justified, for then it was not a question whether war material should be supplied to the belligerents, but who should supply it in competition with other nations. In the present war all nations having a war material industry worth mentioning are either involved in the war themselves or are engaged in perfecting their own armaments, and have, therefore, laid an embargo against the exportation of war material. The United States is accordingly the only neutral country in a position to furnish war materials. The conception of neutrality is thereby given a new purport, independently of the formal question of hitherto existing law. In contradiction thereto, the United States is building up a powerful arms industry in the broadest sense, the existing plants not only being worked but enlarged by all available means, and new ones built. The international conventions for the protection of the rights of neutral nations doubtless sprang from the necessity of protecting the existing industries of neutral nations as far as possible from injury in their business. But it can in no event be in accordance with the spirit of true neutrality, if, under the protection of such international stipulations, an entirely new industry is created in a neutral state, such as is the development of the arms industry in the United States, the business whereof, under the present conditions, can benefit only the belligerent powers.

This industry is actually delivering goods only to the enemies of Germany. The theoretical willingness to supply Germany also, if shipments thither were possible, does not alter the case. If it is the will of the American people that there shall be a true neutrality, the United States will find means of preventing this one-sided supply of arms or at least of utilizing it to protect legitimate trade with Germany, especially that in foodstuffs. This view of neutrality should all the more appeal to the United States Government because the latter enacted a similar policy toward Mexico. On February 4, 1914, President Wilson, according to a statement of a Representative in Congress in the Committee for Foreign Affairs of December 30, 1914, upon the lifting of the embargo on arms to Mexico, declared that "we should stand for genuine neutrality, considering the surrounding facts of the case * * *" He then held that "in that case, because Carranza had no ports, while Huerta had them and was able to import these materials, that it was our duty as a nation to treat them (Carranza and Huerta) upon an equality if we wished to observe the true spirit of neutrality as compared with a mere paper neutrality."

If this view were applied to the present case, it would lead to an embargo on the exportation of arms.

Exhibit No. 2515

F. R. Supp. 1915, p. 160–62
File No. 763.72111/1930

The Secretary of State to the German Ambassador (Bernstorff)

(No. 1379.) Washington, *April 21, 1915.*

Excellency: I have given thoughtful consideration to your excellency's note of the 4th of April, 1915, enclosing a memorandum of the same date, in which your excellency discusses the action of this Government with regard to trade between the United States and Germany and the attitude of this Government with regard to the exportation of arms from the United States to the nations now at war with Germany.

I must admit that I am somewhat at a loss how to interpret your excellency's treatment of these matters. There are many circumstances connected with these important subjects to which I would have expected your excellency to advert, but of which you make no mention, and there are other circumstances to which you do refer which I would have supposed to be hardly appropriate for discussion between the Government of the United States and the Government of Germany.

I shall take the liberty, therefore, of regarding your excellency's references to the course pursued by the Government of the United States with regard to interferences with trade from this country, such as the Government of Great Britain have attempted, as intended merely to illustrate more fully the situation to which you desire to call our attention and not as an invitation to discuss that course. Your excellency's long experience in international affairs will have suggested to you that the relations of the two Governments with one another can not wisely be made a subject of discussion with a third Government, which can not be fully informed as to the facts and which can not be fully cognizant of the reasons for the course pursued. I believe, however, that I am justified in assuming that what you desire to call forth is a frank statement of the position of this Government in regard to its obligations as a neutral power. The general attitude and course of policy of this Government in the maintenance of its neutrality I am particularly anxious that your excellency should see in their true light. I had hoped that this Government's position in these respects had been made abundantly clear, but I am of course perfectly willing to state it again. This seems to me the more necessary and desirable because, I regret to say, the language which your excellency employs in your memorandum is susceptible of being construed as impugning the good faith of the United States in the performance of its duties as a neutral. I take it for granted that no such implication was intended, but it is so evident that your excellency is laboring under certain false impressions that I can not be too explicit in setting forth the facts as they are, when fully reviewed and comprehended.

In the first place, this Government has at no time and in no manner yielded any one of its rights as a neutral to any one of the present belligerents. It has acknowledged, as a matter of course, the right of visit and search and the right to apply the rules of contraband of war to articles of commerce. It has, indeed, insisted upon the use of visit and search as an absolutely necessary safeguard against mistaking neutral vessels for vessels owned by an enemy and against mistaking legal cargoes for illegal. It has admitted also the right of blockade if actually exercised and effectively maintained. These are merely the well-known limitations which war places upon neutral commerce on the high seas. But nothing beyond these has it conceded. I call your excellency's attention to this, notwithstanding it is already known to all the world as a consequence of the publication of our correspondence in regard to these matters with several of the belligeernt nations, because I can not assume that you have official cognizance of it.

In the second place, this Government attempted to secure from the German and British Governments mutual concessions with regard to the measures those Governments respectively adopted for the interruption of trade on the high seas. This it did, not of right, but merely as exercising the privilege of a sincere friend of both parties and as indicating its impartial good will. The attempt was unsuccessful; but I regret that your excellency did not deem it worthy of mention in modification of the impressions you expressed. We had hoped that this act on our part had shown our spirit in these times of distressing war as our diplomatic correspondence had shown our steadfast refusal to acknowledge the right of any belligerent to alter the accepted rules of war at sea in so far as they affect the rights and interests of neutrals.

In the third place, I note with sincere regret that, in discussing the sale and exportation of arms by citizens of the United States to the enemies of Germany, your excellency seems to be under the impression that it was within the choice of the Government of the United States, notwithstanding its professed neutrality, and its dilligent efforts to maintain it in other particulars, to inhibit this trade, and that its failure to do so manifested an unfair attitude towards Germany. This Government holds, as I believe your excellency is aware, and as it is constrained to hold in view of the present indisputable doctrines of accepted international law, that any change in its own laws of neutrality during the progress of a war which would affect unequally the relations of the United States with the nations at war would be an unjustifiable departure from the principle of strict neutrality by which it has consistently sought to direct its actions, and I respectfully submit that none of the circumstances urged in your excellency's memorandum alters the principle involved. The placing of an embargo on the trade in arms at the present time would constitute such a change and be a direct violation of the neutrality of the United States. It will, I feel assured, be clear to your excellency that, holding this view and considering itself in honor bound by it, it is out of the question for this Government to consider such a course.

I hope that your excellency will realize the spirit in which I am drafting this reply. The friendship between the people of the United States and the people of Germany is so warm and of such long standing, the ties which bind them to one another in amity are so many and so strong, that this Government feels under a special compulsion to speak with perfect frankness when any occasion arises which seems likely to create any misunderstanding, however slight or temporary, between those who represent the Governments of the two countries. It will be a matter of gratification to me if I have removed from your excellency's mind any misapprehension you may have been under regarding either the policy or the spirit and purposes of the Government of the United States. Its neutrality is founded upon the firm basis of conscience and good will.

Accept (etc.)

W. J. Bryan

Exhibit No. 2516

State Dept. Doc.
763.72111/3364–½

Hyde, Westbrook & Watson,
Counselor at Law,
Chicago, January 11, 1916.

(Personal)

The Honorable The Secretary of State,
Washington, D. C.

My Dear Mr. Secretary: I am taking the liberty to send you herewith copy of a paper prepared and read by myself before a certain club in this city and also at the houses of some of my friends. It has not been made public and care has been taken to prevent its being reported in the press.

Of course you will understand that no comment from yourself is invited or expected; and I should not be offended were its receipt not acknowledged.

May I congratulate you most heartily on your really great achievement in obtaining assurance of substantial compliance with your demands in regard to submarine warfare. It has been a source of satisfaction to me to be able, on numerous occasions in this city, to express my own confidence (however unimportant) both in your ability to preserve our rights as a neutral and in the wisdom of the course you have pursued. I am trying to make people here trust the Department and so uphold its efforts rather than weaken them by criticism due to ignorance of facts or to unfamiliarity with diplomatic procedure.

With assurances of greatest respect, I am, Mr. Secretary,

Your obedient servant,

[s] CHAS. CHENEY HYDE.

A QUESTION OF LAW AND DIPLOMACY—THE EXPORTATION OF MUNITIONS OF WAR

Throughout the war the suggestion has come from Germany and Austria-Hungary, that if imbued with a spirit of real neutrality the Government of the United States would endeavor to equalize the position of those belligerents with respect to their enemies, by cutting off the access of the allies to its markets, and also possibly by resisting the effort of Great Britain to cut off food supplies from neutral sources. The response of the United States has been that according to international law as exemplified by the Hague Convention above noted, a change of rule in the course of the war, favorable to one belligerent, and harmful to its enemy, would amount to unneutral conduct.

The only ground justifying a change of the rules expressed in the Convention—and one which the Convention itself makes note of in its preamble—is the necessity of a neutral power to make the change in order to protect its own rights. As Secretary Lansing has recently said:

"The right and duty to determine when this necessity exists rests with the neutral, not with a belligerent. It is discretionary, not mandatory. If a neutral power does not avail itself of the right, a belligerent is not privileged to complain, for in doing so it would be in the position of declaring to the neutral power what is necessary to protect that power's own rights."

That the United States does have the right, in case of need, for example on grounds of self-defense, to change the rules and to forbid the sale within its territory of arms to belligerent governments, or to prevent the departure from its territory of such arms when sold, may prove of inestimable value. Two reasons for the assertion of this right might cause us to exercise it. First, the failure of Great Britain to heed American protests against unlawful restrictions imposed upon American commerce; secondly, belief that the unrestricted exportation of arms to the allies would cause Germany and Austria-Hungary to take steps both hostile and injurious to the United States.

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The most serious aspect of the exportation of arms from the United States today, is the magnitude of the business. Its relation to the highest interests of our country cannot be estimated by the experience of neutral states in past wars wherein such activities were on a smaller scale. In probably no war during the past century has the sale of arms to allied belligerent powers attained such vast proportions, or threatened to inject so decisive an element into the outcome of the struggle. Purchases and shipments now being made by agents of the allies are gradually developing to a degree such as to convert them into valuable aids of those belligerents. A portion of the United States is becoming a base of supplies of such magnitude that unless retarded, the success of armies, possibly the fate of empires, may ultimately rest upon the output of American factories and the exports from American soil. If the part taken by the people of the United States in behalf of the allies should be deemed by their enemies likely to rob them of the fruits of victory, no effort would be spared to render our people impotent and their aid valueless. It is inconceivable that a powerful state engaged in a war against Russia, France and England, would allow any consideration whatever to deter it from preventing the people of a neutral state, such as our own, from becoming the decisive factor in the struggle. The inhabitants of no neutral state can decide the issues of a war by participation therein, without making their country a party to the conflict. The operation of this principle is believed to be relentless.

It becomes important, therefore, to consider the probable mode by which Germany might be disposed to thwart the United States. So long as the exportation of munitions of war is not believed to play an important part in the success of the allies, the effort to restrict the traffic will, if diplomacy fails, continue to be desultory and spasmodic. The success of the numerous efforts thus far made to destroy American plants and to jeopardize the safety of vessels sailing from American ports, indicates grimly how effective a vigorous sentimental interest encouraged by a knowledge of belligerent needs can be, to interfere with legitimate trade. Without venturing the suggestion that this work of destruction has had official inspiration or encouragement, the fact exists that between January 18, 1915 and November 11, 1915, eighteen fires and explosions occurred in American munitions plants, or on trains laden with such material; and that since the latter date, similar occurrences have taken place with increasing frequency. Popular belief that such incidents have in some cases resulted from governmental inspiration has been doubtless intensified by the admissions of Dr. Dumba, former Ambassador of Austria-Hungary, that he had advised his Government to give financial support to a plan designed to frustrate the activities of American manufacturers of arms for the allies.

The outrages thus far perpetrated suffice to show the readiness of persons of alien sympathies to cut off a source of aid to the enemies of the country of their origin and also the relative ease with which the work of destruction may be accomplished on a large scale in the absence of serious effort to guard against it.

If at any time, Germany should be convinced that the magnitude of exports of arms and other munitions of war from the United States, renders such traffic really dangerous to her ultimate success, or a substantial factor in the prolongation of the war, summary steps will be taken.

The most obvious would be to declare war upon the United States, or by some action so to enrage American sensibilities, that we would be encouraged not only to break off diplomatic relations, but also to take the initiative ourselves in declaring war. The method by which the United States could be allured into the conflict and transformed from a neutral into a belligerent is unimportant. The advantages to Germany in making the United States an enemy might be considerable. Two of these invite attention. As a belligerent, the United States by reason of its lack of war material, as indicated in Mr. Lansing's note, would doubtless itself appropriate for its own use much of that which otherwise would find its way to England, France and Russia. Thus an embargo on arms might become an immediate necessity; and such a necessity would remove all just cause of complaint from any foreign source. The appropriation of our own resources would not be necessarily due to a belief that we could surely employ them against a European foe, but rather the response to a popular opinion demanding that the government purchase without stint everything that might be needed; and according to the best military opinion, we need today everything here available which is capable of supplying an army or a fleet.

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It is urged by some that the cause of the allies is the cause of civilization, and therefore the cause of the United States, that an embargo on arms would mean victory for Germany, defeat for its enemies, and serve to expose the United States itself to ultimate attack whenever the Teutonic Empire turns longing eyes towards the western hemisphere. It is contended, therefore, that the United States should furnish all possible aid to Great Britain, France and Russia, as the best means of weakening a future and probable enemy. Such advocates commonly assume that active aid by means of American war material can be given to the allies indefinitely, and to a degree beyond precedent, without necessarily causing the United States to be made a party to the conflict. They ignore the fact that Germany will never permit the people of the United States to become the decisive factor in the war, without stubborn and prolonged resistance. They fail to realize that the elimination of the United States as a base of supplies may be regarded by the Kaiser as vital to Germany as the retention of Alsace or the subjugation of Servia. This grim fact must guide all our reckonings. We cannot in this war turn the scales of victory as we like, because the moment we appear to exert that decisive influence we become ourselves the object of attack, and expose our resources and industries to the danger of destruction. Thus the issue cannot arise whether it is better for the United States on the one hand for the allies to lose their fight without American aid, or on the other for the allies to win with American aid, even should it drag our country into the war; for as soon as we abandon our neutral status, for whatsoever cause, our impotence becomes apparent, and our assistance insignificant. This fact offers a complete answer to one who urges that the United States should maintain by force the right to supply arms to any belligerent purchaser. The value of that right depends upon the sufferance of the state against whose interests it is exercised. The moment that state, such as Germany, for reasons already observed, becomes our enemy, and we oppose force to force, we ourselves expose to destruction the value of what we seek to preserve. It may be observed also that the people of the United States, however willing to fight for certain principles would hesitate long before fighting for others. Our right as a neutral to sell war material to a belligerent state to enable it to cripple an adversary with which the United States is at peace, would never appeal to the American people to a degree such that they would consent to make war for the mere purpose of preserving that commercial privilege.

It must be constantly borne in mind that the extent of the use of that privilege, or (from Germany's point of view) the abuse of that privilege would be the direct if not the sole cause of a German desire to be at war with the United States. Strong ties of sentiment and commerce have developed a friendly American-Germany relationship, which Germany herself wisely deems a valuable asset. German losses of credits and other forms of property, as well as the personal restraints that might be placed upon German subjects in American territory, all combine to create solid reasons why Germany would be reluctant to make the United States its enemy. If we are driven to war, we must not be blinded to the exact cause. Could we imagine a tragedy more terrible than to be allured into a contest where we battled ostensibly for the cause of justice and humanity, and yet in reality fought a losing fight for the mere right to enrich ourselves by supplying sinews of war to the enemies of a state with which we were at peace?

It may be urged that under no circumstances could we prevent the sale of supplies to the allied states of Europe without forfeiting their good will, and possibly without making them our enemies. It is doubtless true that tremendous pressure would be brought to bear upon the Department of State to prevent any embargo. It will be remembered, however, that the Hague Convention of 1907, above noted, recognizes the right of a neutral to change its policy in the course of a war in order to protect its own rights. Can anyone doubt that to save itself from war with Germany, or to prepare itself from danger of attack, or to secure observance of some violated principle of international law, the United States could reasonably and justly establish such an embargo? It would not be unneutral for the United States, on grounds of self-defense, to prevent its territory from becoming a decisive base of operations of allied belligerent powers. It would not be unneutral, *under such circumstances*, for the United States to prevent those powers from transforming our Atlantic seaboard into a series of foreign arsenals supplying expeditions against their enemies and our friends.

The duty of the United States in the matter cannot be discussed. It suffices to say that the practice of states above noted in previous wars is not altogether enlightening, because in none have the sale of war material threatened to attain a like relation to the outcome of the conflict. It may be observed parenthetically that a reason now advanced for making us a party to the war and the enemy of Germany, is the fact that the United States as a belligerent could not be held to respond in damages for losses occasioned by sales and munitions of war to our own allies, while it is feared that if we maintain our neutrality, we may expose ourselves to a claim analogous to that with which we preferred against England after the Civil War, and by comparison with which the $15,500,000 which we exacted from her by the arbitration of the Alabama Claims might appear insignificant in amount.

The foregoing reason, and also a more sinister one—namely the desire to increase the market price for the bonds of two allied governments and now held in the United States, have served in fact to create in certain portions of our Country a definite and dangerous effort to cause the United States to join forces with the allies.

We may deem it humiliating as well as a source of vexation that the United States finds its actual power to affect European affairs proportional to its abstention from the use of force, and to its restraint in keeping aloof from war. Doubtless occasions may arise when the disregard of our rights may leave no alternative, and serve to plunge the nation into a conflict wherein we anticipate many a defeat and inestimable loss of life and property before we can hope to hold our own. Our unpreparedness for war, however to be deplored, and our unfamiliarity with the mode of dealing with enemies at home and abroad is, however, a painful reminder, that unless our national honor is at stake, the United States simply must remain at peace.

If it is believed that at some future day not beyond the range of our vision, it shall behoove the United States to take up arms in behalf of an inspiring cause against a powerful state beyond the seas, our immediate task is one of self-restraint as well as preparation. We must not allow a probable enemy to deter us from paths of peace until we are able to fight it and overwhelm it. But years of preparation may have to intervene before that day. If in the course of their duration we suffer chagrin from inability to express resentment as we would, or from helplessness to exact justice for our wrongs, we may find consolation in the certainty that readiness to take offense would be suicidal, and that we should be false to our interests if we entered an arena where our adversary could deal with us in its own way. Today we must steadfastly resist the temptation to play Europe's game according to Europe's code. We must avoid war with Germany and with every other European state. So long as a German Ambassador stays at his post in Washington, we not only remain at peace with his country, but also have cause for hope that controversies with it may be adjusted by amicable means.

It must be apparent that at the present time the status of neutrality is a priceless asset of the United States. In years past when Europe has been the scene of armed conflict, the United States has truly profited by Washington's injunction contained in his farewell address in 1796:

"Europe has a set of primary interests which to us have none or a very remote relation. Hence, she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. Hence, therefore, it must be unwise in us to implicate ourselves by artificial ties in the ordinary vicissitudes of her politics, or the ordinary combinations and collisions of her friendships or enmities. Our detached and distant situation invites and enables us to pursue a different course."

In the fact of this salutary advice our people are nevertheless taking steps today which tend to endanger the blessings of neutrality. And why—not because we are the victims of a denial of justice at the hands of any belligerent—not because of a disregard of our rights as a neutral. We shall not go to war with England because of the unlawfulness of her restraints upon our commerce. Nor shall we fight with her enemies because of their submarine operations. The former controversies will doubtless be adjusted by arbitration or negotiation; and the latter by diplomacy; for it is believed from assurances already obtained by Secretary Lansing, that every just demand respecting the freedom and safety of the seas will be acquiesced in by the Teutonic belligerents, unless for unrelated causes, it is sought to drag us into the war. If we lose our neutral status, it will simply be for the reason that our actual participation in the conflict through aid given to the allies, is deemed by Germany and Austria-Hungary so serious an obstacle to their success, that the maintenance of friendly and peaceful relations with us is no longer possible. No question touching the honor or vital interest of the United States is now at stake. But such an issue can be and might be quickly raised if for other reasons it should be desired to goad us into war. Perhaps the greatest danger of the present hour is the clouding of the issues and the confusion of the popular mind as to the problems now confronting us. The United States must choose the right course. In order to be right our people need the courage and intelligence to see things as they are; and to beware lest sympathy for a foreign cause blind us to the interests of our own.

Stress has been laid on the extent of the harm to be wrought in the United States if Germany became our enemy, and upon the gain to her if, under certain conditions, we entered the war. Clearly the extent of danger to be anticipated should be no deterrent of any American practice impelled by a sense of justice and required by the dictates of humanity. The sacrifice of some rights for the sake of peace would be a shameful heritage for our posterity. But the magnitude of the harm to be wrought by a possible enemy should be carefully estimated in shaping or adhering to a practice really unrelated to fundamental principles of international law, and inspired solely by commercial interests for pecuniary profit. "What king going to war upon another king, sitteth not down first, and consulteth whether he be able with ten thousand to meet him that cometh against him with twenty thousand?" (St. Luke, XIV, 31.)

While the exportation of war supplies imposes upon our Government no legal duty of prevention, and while the traffic may not as yet have attained a volume sufficient to produce alarm in Germany, it may, by reason of its increasing proportions and its degree of assistance to nations fighting in alliance, lead us to a position where we may be regarded by their foes as a most dangerous participant and hence as an inevitable enemy. Does it not therefore behoove us to be prepared to give the right answer when the time comes, to this final and simple question, which is submitted to your consideration: Is the endeavor to make the resources of the United States win the fight for the allies worth the price of war with Germany? Or, conversely, Is the maintenance of neutrality worth an embargo on munitions of war?

[s] CHAS. CHENEY HYDE.

Exhibit No. 2517

[From the House collection, custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

467 Diary—Oct. 2, 1915—243,244

"The other day I asked Mr. S. R. Bertron to invite Lord Chief Justice Reading to lunch at his home and to have no one else excepting the three of us. Bertron gave us a beautiful lunch; the food was delicious and the appointments perfect. After lunch he left Reading and me together and we talked for more than an hour. I told him of the controversy that had arisen between Great Britain and the United States concerning the change in maritime laws. I did not mention Balfour or Sir Horace Plunkett by name, but told him I had received letters from England outlining the English viewpoint and I had taken the matter up with Lansing an hour or two ago, and had found how many difficulties were involved.

What the British Government desire is that on the one hand we shall demand of Germany that no merchantman shall be sunk without warning, and on the other hand, that merchantmen shall, as in times gone by, have the right to arm. I mentioned my conference with Lansing on this subject, in which Lansing did most of the arguing, holding that they could not have their cake and eat it too; that it was manifestly unjust to the submarine to give merchantmen warning and then permit them to fire upon the submarine and sink it while she was giving the warning."

[From the House collection, custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

The White House,
Washington, October 4, 1915.

Mr. E. M. House,
115 East 53rd Street, New York.

Dearest Friend: The idea about a main issue for the campaign next year seems to me a fine one; it is indeed the one that has been vaguely in my own mind for some time. I am to greet the D. A. R. within a week or so: what would you think of my using that occasion, when the natural theme would be patriotism to develop the idea?

* * * * * * *

I read the letters from Plunkett and Balfour with the greatest interest. The matter of armed merchantmen is not so simple as Balfour would make it. It is hardly fair to ask submarine commanders to give warning by summons if, when they approach as near as they must for that purpose they are to be fired upon, as Balfour would evidently have them fired upon. It is a question of many sides and is giving Lansing and me some perplexed moments.

Affectionately yours,

(Signed) Woodrow Wilson.

Exhibit No. 2518

State Dept. Doc.
763.72/2351A

(*Personal and private.*)

January 2, 1916.

The President,
The White House.

My Dear Mr. President: The enclosed copies of telegrams telling of the sinking of the British steamship *Persia* on December 30th about three hundred miles northwest of Alexandria do not, in my opinion, seriously affect the *Ancona* case, since the evidence of torpedoing is inconclusive, the nationality of the submarine, if one was the cause, is unknown, and it is stated that the *Persia* carried an armament.

The fact that the vessel was carrying a 4.7 gun raises a question which, it seems to me, we ought to settle.

Three or four days ago I forwarded to the Italian Ambassador at his request the statement in regard to armed merchant vessels, which we issued in September, 1914. I had discussed the question some four or five weeks before with Mr. Barclay of the British Embassy and told him that, in view of the development of submarines as commerce destroyers, which had been unknown when our statement was issued, I felt that the arming of merchant vessels with any gun, of sufficient calibre to attack a submarine, would make it very difficult, if not impossible, to insist that a submarine should expose itself to attack by coming to the surface and hailing a vessel so armed; and that, while the armament might be termed "defensive", it was capable of being used offensively against a submarine and so, I thought, that a merchant ship carrying a gun or guns would have to be considered and treated as a vessel of war if it entered our ports.

In view of this opinion, which I believe I stated to you orally some time ago, I wrote the Italian Ambassador a letter enclosing the statement of September, 1914, explaining the change of view which the new conditions had forced upon us. I enclose a copy of that letter with our printed statement as to the status of armed merchant vessels.

Since we issued the statement of September, 1914. formally, it appears to me advisable to issue a new statement setting forth the new conditions resulting from the successful employment of submarines in interrupting and destroying commercial vessels, the impossibility of a submarine's communicating with an armed merchant ship without exposing itself to the gravest danger of being sunk by gunfire because of its weakness defensively, the unreasonableness of requiring a submarine to run the danger of being almost certainly destroyed by giving warning to a vessel carrying an armament, and that, therefore, merchant vessels should refrain from mounting guns large enough to sink a submarine, and that, if they do, they become vessels of war and liable to treatment as such by both belligerents and neutrals.

The chief difficulty with the situation seems to me to lie in this: If some merchant vessels carry arms and others do not, how can a submarine determine this fact without exposing itself to great risk of being sunk? Unless the Entente Allies positively agree not to arm any of their merchant vessels and notify the Central Powers to that effect, is there not strong reason why a submarine should not warn a vessel before launching an attack?

You will recall the case of the *Baralong* where a German submarine was bombarding a vessel from which the crew had escaped in boats, when a tramp steamer approached flying the American flag. The submarine remained on the surface and awaited the steamer, which on nearing the submarine lowered the American flag, hoisted the British colors, and with a gun mounted on the stern (a defensive armament according to our early definition) opened fire and sank the German vessel killing all the crew. The British Government would urge that this was merely a *ruse de guerre* and entirely allowable, and so it would have been under old conditions, but under the new conditions it presents a strong argument in favor of submarine attack without warning.

Not only, therefore, should we, in my judgment, rewrite our statement as to the status of armed merchant vessels but show that if any vessels of that class is armed, all merchant vessels are in danger of sudden attack without warning. As to the use of the American flag on any merchant ship converted into an armed vessel it might be well also to make representations to the British Government.

In view of the sinking of the *Persia* it would seem to be opportune and advisable to act in this manner, if it is decided to act, as expeditiously as possible.

Faithfully yours,

[s] ROBERT LANSING.

EXHIBIT No. 2519

State Dept. Doc.
763.72/2352½

THE WHITE HOUSE,
Washington, January 10, 1916.

The SECRETARY OF STATE.

MY DEAR MR. SECRETARY: This seems to me reasonable and thoroughly worth trying.

Faithfully yours,

[s] W. W.

EXHIBIT No. 2520

State Dept. Doc.
763.72/2352½A

THE SECRETARY OF STATE,
Washington, January 17, 1916.

The PRESIDENT,
The White House.

MY DEAR MR. PRESIDENT: I enclose for your consideration the draft of a letter to the British Ambassador dealing with the submarine question, and suggesting a method by which future loss of life on merchant vessels might be avoided.

My first inclination was to send letters to the German Ambassador and Austrian Chargé, but two reasons prevented: first, I was convinced that the German and Austrian Governments would assent to the proposal as it only required them to conform to the rules of international law, while it required their enemies to modify a present practice which might be construed into the relinquishment of a legal right; and, second, if Germany and Austria acceded promptly to the suggestion, any demur by Great Britain, France, Italy, or Belgium would, if it became known (as it would undoubtedly through the German or Austrian Embassies), arouse adverse criticism in the press of this country and excite public resentment against the Entente Powers, which appears to be increasing from day to day.

By adopting this method of approach the proposal can be kept secret if it is refused by the Entente Governments and if it is considered inexpedient to make it public.

Faithfully yours,

[S] ROBERT LANSING

DRAFT

MY DEAR MR. AMBASSADOR: It is a matter of the deepest interest to my Government to bring to an end, if possible, the dangers to life which attend the use of submarines as at present employed in destroying enemy commerce on the high seas, since on any merchant vessel of belligerent nationality there may be citizens of the United States who have taken passage or are members of the crew, in the exercise of their recognized rights as neutrals. I assume that Your Excellency's Government are equally solicitous to protect their nationals from the exceptional hazards which are presented by their passage on a merchant vessel through those portions of the high seas in which undersea craft of their enemy are operating.

While I am fully alive to the appalling loss of life among non-combatants, regardless of age or sex, which has resulted from the present method of destroying merchant vessels without removing the persons on board to places of safety, and while I view that practice as contrary to those humane principles which should control belligerents in the conduct of their naval operations, I do not feel that a belligerent should be deprived of the proper use of submarines in the interruption of enemy commerce since these instruments of war have proven their effectiveness in this particular branch of warfare on the high seas.

In order to bring submarine warfare within the general rules of international law and the principles of humanity without destroying its efficiency in the destruction of commerce, I believe that a formula may be found which, though it may require slight modifications of the practice generally followed by nations prior to the employment of submarines, will appeal to the sense of justice and fairness of all the belligerents in the present war.

Your Excellency will understand that in seeking a formula or rule of this nature I approach it of necessity from the point of view of a neutral, but I believe that it will be equally efficacious in preserving the lives of all non-combatants on merchant vessels of belligerent nationality.

My comments on this subject are predicated on the following propositions:

1. A Non-combatant has a right to traverse the high seas in a merchant vessel entitled to fly a belligerent flag and to rely upon the observance of the rules of international law and principles of humanity if the vessel is approached by a naval vessel of another belligerent.
2. A merchant vessel of enemy nationality should not be attacked without being ordered to stop.

3. An enemy merchant vessel, when ordered to do so by a belligerent submarine, should immediately stop.

4. Such vessel should not be attacked after being ordered to stop unless it attempts to flee or to resist, and in case it ceases to flee or resist, the attack should discontinue.

5. In the event that it is impossible to place a prize crew on board of an enemy merchant vessel or convoy it into port, the vessel may be sunk, provided the crew and passengers have been removed to a place of safety.

In complying with the foregoing propositions which, in my opinion, embody the principal rules, the strict observance of which will insure the life of a non-combatant on a merchant vessel which is intercepted by a submarine, I am not unmindful of the obstacles which would be met by undersea craft as commerce destroyers.

Prior to the year 1915 belligerent operations against enemy commerce on the high seas had been conducted with cruisers carrying heavy armaments. Under these conditions International Law appeared to permit a merchant vessel to carry an armament for defensive purposes without losing its character as a private commercial vessel. This right seems to have been predicated on the superior defensive strength of ships of war, and the limitation of armament to have been dependent on the fact that it could not be used effectively in offense against enemy naval vessels, while it could defend the merchantman against the generally inferior armament of piratical ships and privateers.

The use of the submarine, however, has changed these relations. Comparison of the defensive strength of a cruiser and a submarine shows that the latter, relying for protection on its power to submerge, is almost defenseless in point of construction. Even a merchant ship carrying a small calibre gun would be able to use it effectively for offense against a submarine. Moreover, pirates and sea-rovers have been swept from the main trade channels of the seas, and privateering has been abolished. Consequently, the placing of guns on merchantmen at the present day of submarine warfare, can be explained only on the ground of a purpose to render merchantmen superior in force to submarines and to prevent warning and visit and search by them. Any armament, therefore, on a merchant vessel would seem to have the character of an offensive armament.

If a submarine is required to stop and search a merchant vessel on the high seas and, in case it is found that she is of enemy character, and that conditions necessitate her destruction, to remove to a place of safety all persons on board, it would not seem just or reasonable that the submarine should be compelled, while complying with these requirements, to expose itself to almost certain destruction by the guns on board the merchant vessel.

It would, therefore, appear to be a resonable and reciprocally just arrangement if it could be agreed by the opposing belligerents that submarines should be caused to adhere strictly to the rules of international law in the matter of stopping and searching merchant vessels, determining their belligerent nationality, and removing the crews and passengers to places of safety before sinking the vessels as prizes of war, and that merchant vessels of belligerent nationality should be prohibited and prevented from carrying any armament whatsoever.

In presenting this formula as a basis for conditional declarations by the belligerent governments, I do so in the full conviction that your Government will consider primarily the humane purpose of saving the lives of innocent people rather than the insistence upon a doubtful legal right which may be denied, on account of new conditions.

I would be pleased if you would be good enough to bring this suggestion to the attention of your Government and inform me of their views upon the subject and whether they would be willing to make such a declaration conditioned upon their enemies making a similar declaration.

A communication similar to this one has been addressed to the Ambassadors of France and Italy and the Minister of Belgium at this capital.

I should add that my Government is impressed with the reasonableness of the argument that a merchant vessel carrying an armament of any sort, in view of the character of submarine warfare and the defensive weakness of undersea craft, should be held to be an auxiliary cruiser and so treated by a neutral as well as by a belligerent government, and is seriously considering instructing its officials accordingly.

State Dept. Doc.
763.72/2353½

THE WHITE HOUSE,
Washington, January 17, 1916.

The SECRETARY OF STATE.

MY DEAR MR. SECRETARY: This draft has my entire approval. I hope that you will send it to the Governments you have indicated to me; and I most sincerely hope that they will feel that we are right in our argument and suggestions and will be willing to cooperate with us in attaining the object we have in view, an object which they must surely wish to accomplish as earnestly as we do, and which this seems in the circumstances the only feasible way of reaching.

Faithfully yours,

[s] W. W.

EXHIBIT No. 2521

Foreign Relations, 1916, Supp. p. 146
763.72/2357a

The Secretary of State to the British Ambassador (Spring Rice)

WASHINGTON, *January 18, 1916.*

MY DEAR MR. AMBASSADOR: It is a matter of the deepest interest to my Government to bring to an end, if possible, the dangers to life which attend the use of submarines as at present employed in destroying enemy commerce on the high seas, since on any merchant vessel of belligerent nationality there may be citizens of the United States who have taken passage or are members of the crew, in the exercise of their recognized rights as neutrals. I assume that your excellency's Government are equally solicitous to protect their nationals from the exceptional hazards which are presented by their passage on a merchant vessel through those portions of the high seas in which undersea craft of their enemy are operating.

While I am fully alive to the appalling loss of life among non-combatants. regardless of age or sex, which has resulted from the present method of destroying merchant vessels without removing the persons on board to places of safety, and while I view that practice as contrary to those humane principles which should control belligerents in the conduct of their naval operations, I do not feel that a belligerent should be deprived of the proper use of submarines in the interruption of enemy commerce since those instruments of war have proven their effectiveness in this particular branch of warfare on the high seas.

In order to bring submarine warfare within the general rules of international law and the principles of humanity without destroying its efficiency in the destruction of commerce, I believe that a formula may be found which, though it may require slight modifications of the practice generally followed by nations prior to the employment of submarines, will appeal to the sense of justice and fairness of all the belligerents in the present war.

Your excellency will understand that in seeking a formula or rule of this nature I approach it of necessity from the point of view of a neutral, but I believe that it will be equally efficacious in preserving the lives of all non-combatants on merchant vessels of belligerent nationality.

My comments on this subject are predicated on the following propositions:

1. A non-combatant has a right to traverse the high seas in a merchant vessel entitled to fly a belligerent flag and to rely upon the observance of the rules of international law and principles of humanity if the vessel is approached by a naval vessel of another belligerent.
2. A merchant vessel of enemy nationality should not be attacked without being ordered to stop.
3. An enemy merchant vessel, when ordered to do so by a belligerent submarine, should immediately stop.
4. Such vessel should not be attacked after being ordered to stop unless it attempts to flee or to resist, and in case it ceases to flee or resist, the attack should discontinue.
5. In the event that it is impossible to place a prize crew on board of an enemy merchant vessel or convoy it into port, the vessel may be sunk, provided the crew and passengers have been removed to a place of safety.

In complying with the foregoing propositions which, in my opinion, embody the principal rules, the strict observance of which will insure the life of a non-combatant on a merchant vessel which is intercepted by a submarine, I am not unmindful of the obstacles which would be met by undersea craft as commerce destroyers.

Prior to the year 1915 belligerent operations against enemy commerce on the high seas had been conducted with cruisers carrying heavy armaments. Under these conditions international law appeared to permit a merchant vessel to carry an armament for defensive purposes without losing its character as a private commercial vessel. This right seems to have been predicated on the superior defensive strength of ships of war, and the limitation of armaments to have been dependent on the fact that it could not be used effectively in offense against enemy naval vessels, while it could defend the merchantman against the generally inferior armament of piratical ships and privateers.

The use of the submarine, however, has changed these relations. Comparison of the defensive strength of a cruiser and a submarine shows that the latter, relying for protection on its power to submerge, is almost defenseless in point of construction. Even a merchant ship carrying a small caliber gun would be able to use it effectively for offense against a submarine. Moreover, pirates and sea rovers have been swept from the main trade channels of the seas, and privateering has been abolished. Consequently, the placing of guns on merchantmen at the present day of submarine warfare can be explained only on the ground of a purpose to render merchantmen superior in force to submarines and to prevent warning and visit and search by them. Any armament, therefore, on a merchant vessel would seem to have the character of an offensive armament.

If a submarine is required to stop and search a merchant vessel on the high seas and, in case it is found that she is of enemy character and that conditions necessitate her destruction, to remove to a place of safety all persons on board, it would not seem just or reasonable that the submarine should be compelled, while complying with these requirements, to expose itself to almost certain destruction by the guns on board the merchant vessel.

It would, therefore, appear to be a reasonable and reciprocally just arrangement if it could be agreed by the opposing belligerents that submarines should be caused to adhere strictly to the rules of international law in the matter of stopping and searching merchant vessels, determining their belligerent nationality, and removing the crews and passengers to places of safety, before sinking the vessels as prizes of war, and that merchant vessels of belligerent nationality should be prohibited and prevented from carrying any armament whatsoever.

In presenting this formula as a basis for conditional declarations by the belligerent governments, I do so in the full conviction that your Government will consider primarily the humane purpose of saving the lives of innocent people rather than the insistence upon a doubtful legal right which may be denied on account of new conditions.

I would be pleased if you would be good enough to bring this suggestion to the attention of your Government and inform me of their views upon the subject and whether they would be willing to make such a declaration conditioned upon their enemies' making a similar declaration.

A communication similar to this one has been addressed to the Ambassadors of France, Russia, Italy and the Minister of Belgium at this capital.

I should add that my Government is impressed with the reasonableness of the argument that a merchant vessel carrying an armament of any sort, in view of the character of submarine warfare and the defensive weakness of undersea craft, should be held to be an auxiliary cruiser and so treated by a neutral as well as by a belligerent government, and is seriously considering instructing its officials accordingly.

I am (etc.)

ROBERT LANSING.

("Exhibit No. 2522" appears in text on p. 8277)

("Exhibit No. 2523" appears in text on p. 8278)

("Exhibit No. 2524" appears in text on p. 8278)

EXHIBIT No. 2525

State Dept. Doc.
F. W. 763.72/2525
Not sent.

DEPARTMENT OF STATE,
Washington.

His Excellency, SIR CECIL SPRING-RICE,
Ambassador of Great Britain.

MY DEAR MR. AMBASSADOR: I have received your courteous letter of the 23d instant and given careful consideration to the Memorandum enclosed relating to the proposal for an agreement to disarm merchant vessels by the Entente Powers, which I unofficially submitted to you in my letter of January 18, 1916.

The proposal was made with the humane purpose of removing the principal reason given by the German and Austro-Hungarian Governments for the failure of their submarines to comply strictly with the rules of naval warfare in intercepting the merchant vessels of their enemies on the high seas, a practice which has resulted in an appalling loss of life among the passengers and crews of vessels which have been attacked without warning.

Believing that an arrangement, such as I had the honor to propose would have resulted in the discontinuance by Germany and Austria-Hungary of a method of attack on merchant vessels which puts in Jeopardy the lives of hundreds of men, women and children of neutral as well as belligerent nationality, I cannot but regret that the Governments of the Entente Powers [have rejected]* could not see their way to accede to the proposal [and have declared their unwillingness to agree to refrain from the use of armament in protecting their property on the high seas].*

The Entente Governments having, however, reached a decision to decline the proposed arrangement, it becomes my duty to accept their decision as final, [although I can assure your Excellency that I do so with the greatest reluctance and with grave apprehension for the future]* and in the spirit in which they have made it.

I am, my dear Mr. Ambassador,
Very sincerely yours,

——— ———.

State Dept. Doc.
763.72/2638½

THE WHITE HOUSE,
Washington, March 30, 1916.

The SECRETARY OF STATE.

MY DEAR SECRETARY: There are several reasons why I think it would not be wise to send a reply of exactly this sort to these governments; but it would be very unsatisfactory to set them forth in a letter. I would like the pleasure of an early conference with you, on this and one or two other pending matters. No doubt we can agree upon a time when I see you at the meeting of the Cabinet to-morrow.

Faithfully yours,

[s] W. W.

State Dept. Doc.
File No. 763.72/2522

(Personal and confidential: Re: Modus vivendi.)

APRIL 3, 1916.

The PRESIDENT,
The White House.

MY DEAR MR. PRESIDENT: I enclose a proposed letter in reply to the rejection of our proposal of January 18th, relative to the disarming of merchant vessels.

I have already sent you a draft of a letter on this subject, and in the enclosed I have sought to meet your views on the previous draft.

Faithfully yours,

[s] ROBERT LANSING.

---

*Scratched out.

Enclosure.

Foreign Relations, 1916, Supp., p. 223
File No. 763.72/2522

APRIL 7, 1916.

His Excellency Mr. J. J. JUSSERAND,
Ambassador of France.

MY DEAR MR. AMBASSADOR: I have received your courteous letter of the 22d ultimo and given careful consideration to the Memorandum enclosed relating to the proposal for an agreement to disarm merchant vessels by the Entente Powers, which I unofficially submitted to you in my letter of January 18, 1916.

The proposal was made with the Humane purpose of removing the principal reason given by the German and Austro-Hungarian Governments for the failure of their submarines to comply strictly with the rules of naval warfare in intercepting the merchant vessels of their enemies on the high seas, a practice which has resulted in an appalling loss of life among the passengers and crews of vessels which have been attacked without warning.

Believing that an arrangement, such as I had the honor to propose, would have resulted in the discontinuing by Germany and Austria-Hungary of a method of attack on merchant vessels which puts in jeopardy the lives of hundreds of men, women and children of neutral as well as belligerent nationality, I cannot but regret that the Governments of the Entente Powers could not see their way to accede to the proposal.

The Entente Governments having, however, reached a decision to decline the proposed arrangement, it becomes my duty to accept their decision as final, and in the spirit in which they have made it.

I am, my dear Mr. Ambassador,
Very sincerely yours,

[s] ROBERT LANSING.

EXHIBIT NO. 2526

State Dept. Doc.
f. w. 763.72/1981½

DEPARTMENT OF STATE,
OFFICE OF THE SOLICITOR,
July 16, 1915.

Notes on the German second note in the "Lusitania" correspondence

There will hardly be two opinions whether the United States is to insist that Germany reprobate the destruction of the lives of American citizens through the sinking of the *Lusitania* by its submarine.

But presupposing this is done—may the United States, without compromise or surrender of the principle, in its essence, for which it has contended, consider proposals for arrangements for setting aside a certain number of vessels for the carriage of passengers in European waters, the same to be free from molestation and danger from war craft

"The Government of the United States is, of course, not oblivious to the great changes which have occurred in the conditions and means of naval warfare since the rules hitherto governing legal blockade were formulated. It might be ready to admit that the old form of 'close' blockade with its cordon of ships in the immediate offing of the blockaded ports is no longer practicable in face of an enemy possessing the means and opportunity to make an effective defense by the use of submarines, mines and air craft; but it can hardly be maintained that, whatever form of effective blockade may be made use of, it is impossible to conform at least to the spirit and principles of the established rules of war. If the necessities of the case should seem to render it imperative that the cordon of blockading vessels be extended across the approaches to any neighboring neutral port or country, it would seem clear that it would still be easily practicable to comply with the well-recognized and reasonable prohibition of international law against the blockading of neutral ports by according free admission and exit to all lawful traffic with neutral ports through the blockading cordon. Such procedure need not conflict in any respect with the rights of the belligerent maintaining the blockade since the right would remain with the blockading vessels to visit and search all ships either entering or leaving the neutral territory which they were in fact, but not of right, investing." (Note of the United States to the British Government of March 30, relating to the British Order in Council of March 11th.)

I interpret these expressions as indicative of a disposition on the part of the United States Government, in view of the recent great changes in the means of warfare, to admit reasonable modifications in the application, in practice, of the established rules of international usage, when the essence of the right of belligerent and neutral, respectively, will be preserved.

Presumably, the view of the author of the paragraph just quoted comprehended the right of Great Britain to establish and maintain a blockade of German ports and an appreciation that rigid compliance with the established and recognized form and manner of blockade would not be insisted on, if to do so the right of blockade would be lost; provided always, and of course, that the substance of the right of the neutral is preserved.

Moreover Great Britain has insisted that the established mode of visit and search of merchant ships on the high seas can no longer be followed on account of the danger to the searching ship from attack by German submarine war craft while such visit and search is taking place, and has insisted upon taking neutral ships wherever found in European waters to British or allied ports, and there detaining them while search for contraband or illicit goods goes on; her contention being that she should not be expected to forego the substantial right of visit and search, which she would have to do, she says, if she pursued the practice in that matter hitherto known to international usage.

The right of a belligerent to overtake and destroy, in so far as neutrals are concerned, enemy merchant ships carrying contraband or munitions of war is to be admitted. (Personally I abhor the whole conception of war which comprehends war on private owned merchant ships, when flying the flag of the enemy, except in the case of munitions and supplies of war, which latter I think may well be summarily dispatched wherever met with.) But we are dealing with a situation where one belligerent insists that its substantial right to overtake and destroy enemy ships carrying munitions of war with which to attack it, is not to be defeated entirely by the presence on such ship of neutral passengers.

It is hardly correct to say that the neutral has the right, unlimited, of traveling on merchant ships of belligerents carrying contraband and munitions of war. A neutral does not have the right to afford, by his presence, protection to such a ship or its cargo, as we see from the admitted principle by which he is required to abandon the ship when overtaken by the enemy—if afforded opportunity to do so with reasonable safety; his right consists in the opportunity to leave the ship in safety before it is sunk. His presence affords no legal protection to the ship or its cargo.

The concurring right of the belligerent to take and destroy enemy ships with their cargoes, and the right of those found aboard to be taken off before the ship is destroyed, may coexist where naval warfare is conducted by the ordinary ships of war; but, it seems, this is not the case where the submarine is employed in the pursuit of enemy merchantmen.

I pass up any discussion of what should be made, or may perhaps finally become, the accepted rule of international law respecting the operation of submarines as relating to merchant ships.

The question arises shall consideration be given to this change in the instrumentalities of naval warfare, or shall we contend for the right of our nationals to use any and all ships, including those flying the flag of Germany's enemy and carrying arms and munitions of war, thereby, in a measure at least, extending protection to the ship and its cargo except when overtaken by an ordinary warship which is able to destroy the ship and at the same time furnish means of escape to those on board.

It should not be overlooked that the protection insisted on for the American traveler on a British ship from New York to Liverpool may also be demanded for the American citizen on a British merchantman loaded at Liverpool and bound for Havre with a full cargo of arms and ammunition destined for immediate delivery to the troops of the allies in the trenches.

Is it of the essence of the right of an American citizen to travel in European waters that he be allowed to take passage on any and all of the ships of the belligerents, whatever may be their cargo or destination? I hardly think so. If abundant facilities are furnished for the safe conveyance of our people in European waters within the zone of hostilities, it seems to me there would be no ground for complaint on the part of any American citizens who might prefer a ship of the enemy carrying munitions of war into the zone of hostilities.

Bearing in mind the views which have been expressed in the correspondence with Great Britain respecting consideration to be given to the momentous changes in the conditions and means of warfare, I am impressed with the idea that if Germany will reprobate the destruction of innocent lives through the attack of its submarine upon the *Lusitania* and the circumstances of its sinking, we should not close the door to the consideration of proposals, if reasonable and practicable, for setting aside an adequate number of ships upon which our people may take passage and travel unmolested in European waters, those ships not to carry mixed cargoes of babies and bullets.

[s] JOHNSON.

EXHIBIT NO. 2527

State Dept. Doc.
763.72/2337A

(Personal and private)

DECEMBER 21, 1915.

The PRESIDENT,
Hot Springs, Virginia.

MY DEAR MR. PRESIDENT: I had a long conversation this afternoon with Senator Stone in regard to our relations with the belligerent countries, and I am disturbed at his attitude. He clearly indicated after we had talked awhile that he thought that we were bearing too severely upon the Teutonic Allies and were not pressing Great Britain as strongly as we should in insisting upon observance of our trade rights. When I suggested that loss of life seemed to me to require more drastic treatment than loss of property, he replied that they both involved *rights*. I said to him that the right of life was an inherent right, the loss of which could never be indemnified, but that the right of property was a legal right, which could be fully remedied by an indemnity. I could see, however, that this in no way satisfied him, for he then referred to German babies dying because Great Britain would not allow us to send them condensed milk, and followed it up with dyes, potash, etc., etc.

This seems to me a serious matter, for, while I believe the Senator will not oppose the policies of the Administration, I do not think he will support them whole-heartedly or enthusiastically. This is especially unfortunate with Senator Lodge radically pro-Ally at the head of the minority of the committee, and ready to take advantage of a situation which offers possibilities of political advantage.

Probably Senator Stone is influenced by the fact that he has a considerable German constituency, which he wishes to keep in good humor, but whatever the reason, his ideas of our neutral duty will make it difficult for him to deal with our foreign affairs in a way that will strongly support the administration and carry through its policies.

I hope that you will find it possible as soon as you return to Washington to ask Senator Stone to come and see you and see if something cannot be done to change his attitude, as it will otherwise make the situation one which will be hard to handle. I do not think the case one which permits much delay.

Faithfully yours,

[s] ROBERT LANSING.

EXHIBIT NO. 2528

The Intimate Papers of Colonel House, pp. 201–202.

Memorandum of Sir Edward Grey

FOREIGN OFFICE,
February 22, 1916.

(Confidential)

Colonel House told me that President Wilson was ready, on hearing from France and England that the moment was opportune, to propose that a Conference should be summoned to put an end to the war. Should the Allies accept this proposal, and should Germany refuse it, the United States would probably enter the war against Germany.

Colonel House expressed the opinion that, if such a Conference met, it would secure peace on terms not unfavourable to the Allies; and, if it failed to secure peace, the United States would (probably) leave the Conference as a belligerent on the side of the Allies, if Germany was unreasonable. Colonel House expressed an opinion decidedly favourable to the restoration of Belgium, the transfer of Alsace and Lorraine to France, and the acquisition by Russia of an outlet to the sea, though he thought that the loss of territory incurred by Germany in one place would have to be compensated to her by concessions to her in other places outside Europe. If the Allies delayed accepting the offer of President Wilson and if, later on, the course of the war was so unfavorable to them that the intervention of the United States would not be effective, the United States would probably disinterest themselves in Europe and look to their own protection in their own way.

I said that I felt the statement, coming from the President of the United States, to be a matter of such importance that I must inform the Prime Minister and my colleagues; but that I could say nothing until it had received their consideration. The British Government could, under no circumstances, accept or make any proposal except in consultation and agreement with the Allies. I thought that the Cabinet would probably feel that the present situation would not justify them in approaching their Allies on this subject at the present moment; but, as Colonel House had had an intimate conversation with M. Briand and M. Jules Cambon in Paris, I should think it right to tell M. Briand privately, through the French Ambassador in London, what Colonel House had said to us; and I should, of course, whenever there was an opportunity, be ready to talk the matter over with M. Briand, if he desired it.

(Intd.) E. G.

EXHIBIT NO. 2529

State Dept. Doc.
763.72/2337½

HOT SPRINGS, VA.,
December 24, 1915.

THE WHITE HOUSE

WASHINGTON

The SECRETARY OF STATE.

MY DEAR MR. SECRETARY: This is indeed not a little disturbing, but I think it comes from other quarters than the Senator's own personal thinking. It makes House's errand all the more pressing and opportune. I shall have a talk with the Senator at the earliest possible moment after my return and shall try my best to make the situation as a whole so clear to him that he will take our view of it.

With much regard,

Cordially and faithfully yours,

[s] WOODROW WILSON.

EXHIBIT NO. 2530

State Dept. Doc.
763.72/2473½

EMBASSY OF THE UNITED STATES OF AMERICA.
Berlin, Germany.

(Personal)
The Honorable the SECRETARY OF STATE,
Washington, D. C.

DEAR MR. SECRETARY: I had the grippe, went to Partenkirchen for a few days, but the first night in country air since July 1914 was too much for me and filled me with such energy that I tried skiing, fell down and broke my collarbone, came to Berlin and can sit at my desk but am very uncomfortable.

I think Germany was about to offer to sink no merchant ships without notice and putting crews etc. in safety, if England would disarm merchant ships, but now, since the President's letter to Stone, both the Chancellor and von Jagow say they are convinced that America has a secret understanding with England and that nothing can be arranged.

It is *claimed* by the Foreign Office here that you said to von Zwiedenek that you approved of Germany's recent memorandum *re.* disarming merchant ships.

Captain Persius points out in to-day's "*Tageblatt*" that it is not submarines alone that are now, without notice, going to sink armed merchant ships, but cruisers etc. will take a hand.

It is reported that the Kaiser went to Wilhelmshafen to warn submarine commanders to be careful. It is reported that submarines will hunt in pairs, one standing ready to torpedo while the other warns. It is also reported that the German losses at Verdun are small as artillery fire annihilated enemy first. I think an attack will be made now in another part of the front.

Germany has forbidden the *import* of many articles of luxury; this is to keep exchange more normal and keep gold in the country. This will continue after the war—probably.

[s] GERARD.
J. W. G.

×

MUNITIONS INDUSTRY

HEARINGS
BEFORE THE
SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY
UNITED STATES SENATE
SEVENTY-FOURTH CONGRESS
SECOND SESSION
PURSUANT TO

S. Res. 206
(73d Congress)

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

PART 28
JANUARY 15 AND 16, 1936

NEUTRALITY 1914–17
WORLD WAR FINANCING 1916

J. P. MORGAN & COMPANY

Printed for the use of the
Special Committee Investigating the Munitions Industry

UNITED STATES
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NOTE.—Accounts, records of security transactions and various financial data relating to the subject matter herein discussed will be found among "Exhibits Nos. 4206 through 4212, 4214, and 4215", Hearings, Part XXXIII; "Exhibit No. 4217", Hearings, Part XXXIV; also, "Exhibits Nos. 4218 through 4222, 4232, and 4254 through 4256", Hearings, Part XXXV.

INVESTIGATION OF MUNITIONS INDUSTRY

WEDNESDAY, JANUARY 15, 1936

THE UNITED STATES SENATE,
SPECIAL COMMITTEE TO INVESTIGATE,
THE MUNITIONS INDUSTRY,
Washington, D. C.

The hearing was resumed at 10 a. m. in the Caucus Room, Senate Office Building, pursuant to adjournment, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary; Lawrence Brown, financial assistant to committee.

The CHAIRMAN. The committee will be in order. Senator Clark, you may proceed.

CUMULATIVE EFFECTS OF UNITED STATES POLICIES, 1914–1916

Senator CLARK. Mr. Chairman, we come now to the question of cumulative effects of our neutrality policy from 1914 to and including 1916. President Wilson, Colonel House, and Secretary Lansing, apparently from the outset of the war, were convinced that in the interests of the United States in particular, and of civilization in general, a German victory could not be permitted. They considered that a triumphant Germany would be a real menace to the United States and to the world. They were, therefore, strongly pro-Ally in sympathy, and their policies during the first 2 years of the war, which were almost never neutral in spirit as has been demonstrated in the preceding study with respect to British violations of our neutral rights of trade, the arms traffic, the armed merchantmen issue, and warning Americans to stay off armed belligerent ships, can be explained, and to some extent justified on that basis, regardless of whether or not one agrees with the premise.

In the summer of 1916, when President Wilson, particularly, awoke to a realization of Allied aims, when the United States was outraged with the British because of mail censorship and the black list, when our relations with Germany were better than they had been at any previous time during the war due to the Sussex pledge, when President Wilson was disposed to employ drastic measures against the Allies' lack of respect for our rights, he discovered that the tremendous commercial and financial involvments of this country in the Allied cause rendered drastic action against the Allies impossible, rendered him powerless to effect any change, fundamentally, in the policy which for reasons of sentiment, tradition, and a belief in Allied ideals, he had pursued during the first 2 years of our so-called neutrality.

Colonel House, the purveyor of the President's ideas and his unofficial peace emissary in Europe, had made unsuccessful peace trips to Europe in 1914 and 1915. By the fall of 1915 he was thoroughly convinced that the United States must do something positive to end the war in a way that would abolish militarism. On October 8, 1915, he recorded in his diary that he had outlined to President Wilson a positive plan for the United States to follow.

I quote from Colonel House's diary, volume II, page 85 [reading]:

> I thought we had lost our opportunity to break with Germany, and it looked as if she had a better chance than ever of winning, and if she did win our turn would come next; and we were not only unprepared, but there would be no one to help us stand the first shock. Therefore, we should do something decisive now—something that would either end the war in a way to abolish militarism or that would bring us in with the Allies to help them do it. My suggestion is to ask the Allies, unofficially, to let me know whether or not it would be agreeable to them to have us demand that hostilities cease. We would put it upon the high ground that the neutral world was suffering along with the belligerents and that we had rights as well as they, and that peace parleys should begin upon the broad basis of both military and naval disarmament * * *.

The thought expressed there is so striking, Mr. Chairman, that I desire to emphasize again the first sentence in the letter:

> I thought we had lost our opportunity to break with Germany, and it looked as if she had a better chance than ever of winning, and if she did win our turn would come next; * * *.

In other words, Colonel House was apparently regretting very much that he considered we had lost an opportunity to break with Germany and precipitate a war.

President Wilson approved the plan suggested by Colonel House in this letter. Colonel House carried on his negotiations for American intervention, largely with the British depending on them to bring their Allies into line. Sir Edward Grey, however, constantly pointed out that Great Britain could do nothing, actually, in the way of requesting President Wilson to intervene until some of her Allies were ready to discuss peace. In view of the fact that Great Britain was financing her Allies, had control of the seas, and was doing some fighting on land as well, it seems strange that she could not approach her Allies in regard to a discussion of peace, and felt it necessary to send Colonel House on that mission.

However, Colonel House's negotiations were crowned by the now famous House-Grey agreement of February 22, 1916, to which I referred on yesterday, which is a most amazing document viewed from any point of view.

The memorandum of Sir Edward Grey, Committee exhibit 27, was offered yesterday,[1] but I will read the essential portion of it [reading]:

> Colonel House told me that President Wilson was ready, on hearing from France and England that the moment was opportune, to propose that a conference should be summoned to put an end to the war. Should the Allies accept this proposal, and should Germany refuse it, the United States would probably enter the war against Germany.

---

[1] See "Exhibit No. 2528", Hearings, Part XXVII, appendix, p. 8483.

> Colonel House expressed the opinion that, if such a conference met, it would secure peace on terms not unfavorable to the Allies; and, if it failed to secure peace, the United States would (probably)—

I understand the word "probably" was inserted by President Wilson—

> leave the conference as a belligerent on the side of the Allies, if Germany was unreasonable. Colonel House expressed an opinion decidedly favorable to the restoration of Belgium, the tranfer of Alsace and Lorraine to France, and the acquisition by Russia of an outlet to the sea, though he thought that the loss of territory incurred by Germany in one place would have to be compensated to her by concessions in other places outside Europe—

Doubtless in Ethiopia.

> If the Allies delayed accepting the offer of President Wilson and if, later on, the course of the war was so unfavorable to them that the intervention of the United States would not be effective, the United States would probably disinterest themselves in Europe and look to their own protection in their own way.

That was initialed by Sir Edward Grey, Foreign Office, February 22, 1916.

Here we have an entirely unofficial representative of President Wilson, holding no official position, not confirmed by the Senate in any way, not only agreeing to bring the United States into war under certain contingencies, without the knowledge of the Congress or any authority for doing so, but actually presuming to lay down the peace terms which would be proposed at a conference, looking to the taking from Germany of certain territories and the compensation to Germany by a grant of certain other territories, unnamed, outside of Europe.

That is from the Intimate Papers of Colonel House, volume II, pages 163, 174, 201–202.

With regard to the agreement itself, one might be appalled at the extent to which President Wilson had secretly committed this country to war, particularly at a time (February 1916) when the sentiment of the country was overwhelmingly against war. Comment with respect to the complete unneutrality of such an agreement is hardly necessary.

Further, as Walter Millis very pertinently remarks in his *Road to War*, page 272 [reading]:

> As to the character of the peace guarantees, the military and naval disarmament, and the freedom of the seas, for the sake of which the United States would thus be committed to the war, there was not one word in the whole of this extraordinary document.

In spite of the House-Grey agreement, the British never took advantage of this proposal. I now read exhibit 27, being a letter from Colonel House to the President, dated at New York, May 14, 1916, taken from the House collection in the custody of Prof. Charles Seymour, Yale University, New Haven, Conn.

(The document referred to was marked "Exhibit No. 2531", and appears in full in the text.)

Senator **Clark**. That reads:

> Dear Governor: Here is a cable which came from Sir Edward yesterday. It is disappointing in a way and yet there is nothing final about it. He does not give his own opinion firmly, much less that of any of his colleagues.
>
> That is the difficulty we have in dealing with the British Government. Sir Edward has been talking to me for 2 years concerning the necessity of the

United States doing just what you now propose, and yet when you are ready to do it, he hesitates.

What do you think of the enclosed cable to him? I shall also write him a letter by the next mail enclosing some clippings culled from the papers today bearing such headings as these: "Urges the President to offer his services for peace", "Bryan demands move for peace", etc.

Sir Edward wants to know whether he shall take the matter up with Asquith. What would you advise about this? Shall we go ahead upon his negative approval rather than risk a more positive statement from Asquith?

Asquith, of course, was the Prime Minister at that time [continuing reading "Exhibit No. 2531"]:

Do you think it would serve any purpose for me to talk to Jusserand and have him get in touch with Briand and Cambon?

* * * * * * *

I see evidences of the Allies regaining their self-assurance and not being as yielding to our desires as they were when they were in so much trouble. We have given them everything and they ever demand more.

One thing that works against you is the alienated Americans living in both Paris and London. By their wealth and position they have the ears of the members of the governments. Whitney Warren in Paris is a type, and I have been told is very close to Briand. Bacon is another. The members of the firm of Morgan & Co. are close to both Governments, and you may be sure there is nothing your administration does but what is condemned.

They try to create the feeling, and never more so than now, that if the Republicans were in, it would be a triumph for the Allies and that if the war continues until after November, things will be different.

* * * * * * *

It should be borne in mind that Page may resign in any event for the reason that their children are married and Mrs. Page is very lonely and desires to come home. I believe Cleve Dodge would be an excellent substitute for Page. He is loyal and has good sense, and that is all you want in an ambassador.

Affectionately yours,

I think the essential thing to be noticed in this letter is the statement of Colonel House that as the Allies' military position improved they were disposed to run out on their undertaking with regard to peace.

On March 24, 1916, the *Sussex*, a channel steamer, unarmed and with Americans on board, was torpedoed without warning and the submarine controversy between the United States and Germany broke out anew.

The United States did not, however, go to war over the *Sussex* submarine controversy. On April 18, 1916, this Government sent a note to the German Government on the sinking of the *Sussex*, stating that diplomatic relations would be severed unless Germany abandoned her methods of submarine warfare. On April 20, 1916, a conversation in regard to the *Sussex* crisis took place between von Bernstorff, German Ambassador to the United States, and Secretary Lansing, which is here reproduced in part. It is not necessary to read all this rather long conversation, but I will insert it all in the record. There are certain portions of it which I think are material, however [reading from "Exhibit No. 2532"]:

Ambassador von BERNSTORFF. I want to do what I can, because I am perfectly convinced they do not want to break; quite apart from the sentimental side I think they do not want to break. A break would prolong the war. It would last for years.

Secretary LANSING. We do not any of us want to prolong the war.

Ambassador von BERNSTORFF. That is exactly why I want to get out of this present difficulty. From the present state of affairs it looks as if the end is coming and if now there was a break and the United States was brought into the war it would prolong it. It would cause new complications.

Then a little further down Ambassador von Bernstorff says:

> Then I am to understand that you do not recognize the law of retaliation?
>
> Secretary **Lansing**. We do not recognize retaliation when it affects the rights of commerce.
>
> Ambassador **von Bernstorff**. The British retaliate by stopping all commerce to Germany.
>
> Secretary **Lansing**. It is a very different thing. The right to life is an inherent right, which man has from birth; the right of property is a purely legal right.
>
> Ambassador **von Bernstorff**. Only in this case, England's methods affect the lives of noncombatants of Germany.

Coming to the end of the conversation, Secretary Lansing said:

> I do not feel that breaking off of diplomatic relations necessarily means war.
>
> Ambassador **von Bernstorff**. I do not say it myself but I do not see how it can be avoided. If we refuse it will be because we are to continue submarine warfare and then something might happen which would mean war. I came to see if something could not be done.

I now offer Committee exhibit 28, the complete record of the conversation between Ambassador von Bernstorff and Secretary Lansing.

(The document referred to was marked "Exhibit No. 2532" and is included in the appendix on p. 8655.)

Senator **Clark**. The Germans constantly pointed out in their exchanges with the United States the fact that the American Government made no concessions to Germany's contentions that the use of the submarine weapon was vital in their warfare against Britain's control of the seas with its illegal blockade measures and stoppage of commerce to Germany, while the same Government, the American Government, did very little to insist that Britain observe the rules of international law.

This point is clearly emphasized also in a memorandum of April 25, 1916, written by Mr. Frank Polk, who at that time was Counselor of the Department of State, of a conversation over the telephone between Mr. Polk and Colonel House, which was handed to Lansing and transmitted by him to the President. I quote [reading from "Exhibit No. 2533"]:

> Colonel House called me up this afternoon shortly after 4 and said he had just had a conversation with the German Ambassador who had heard from his Government. His Government is most anxious to avoid a break and asked him what was the best course to pursue. They also asked him what was meant by "illegal methods of submarine warfare." These two questions will be answered by the Ambassador without going to the Department of State.
>
> His Government also wanted to know if they gave up submarine warfare what the United States would do about the blockade.
>
> * * * * * * *
>
> In regard to the blockade, Colonel House pointed out that our relations, as far as Great Britain is concerned, are quite different from our relations with Germany; that war with Germany would be possible, whereas war with Great Britain was more or less out of the question. This the Ambassador said he understood.

I now offer for the record Committee exhibit 29, being the letter from Secretary Lansing, transmitting this memorandum from which I have just read a part.

(The document referred to was marked "Exhibit No. 2533" and is included in the appendix on p. 8657.)

Senator **Clark**. On May 4, 1916, came the German reply to the American note of April 18. In it the German Government promised to observe the rules of visit and search and to provide for the safety of persons on board destroyed ships. In other words, the conditions laid down by the President in his note of April 18 had been completely accepted by Germany.

The note contained two significant final paragraphs, which suggested again that Germany could not tie her hands irrevocably on waging ruthless submarine warfare if the United States took no active steps against British violations of neutral rights.

I quote again from the German note [reading]:

> But neutrals cannot expect that Germany, forced to fight for her existence, shall for the sake of neutral interests, restrict the use of an effective weapon, if her enemy is permitted to continue to apply at will methods of warfare violating the rules of international law. Such a demand would be incompatible with the character of neutrality, and the German Government is convinced that the Government of the United States does not think of making such a demand, knowing that the Government of the United States has repeatedly declared that it is determined to restore the principle of the freedom of the seas, from whatever quarter it has been violated.
>
> Accordingly, the German Government is confident that, in consequence of the new orders issued to its naval forces, the Government of the United States will now also consider all impediments removed which may have been in the way of a mutual cooperation toward the restoration of the freedom of the seas during the war, as suggested in the note of July 23, 1915, and it does not doubt that the Government of the United States will now demand that the British Government shall forthwith observe the rules of international law universally recognized before the war, as they are laid down in the notes presented by the Government of the United States to the British Government on December 28, 1914, and November 5, 1915. Should the steps taken by the Government of the United States not attain the object it desires, to have the laws of humanity followed by all belligerent nations, the German Government would then be facing a new situation in which it must reserve itself complete liberty of decision. * * *

At that time President Wilson asked Col. House what he thought of the note and his advice as to the action the President should take. In spite of his apparent eagerness throughout to sever relations with Germany, as illustrated in the quotation below, Col. House realized the German reply prevented that.

I now quote from Intimate Papers of Colonel House, volume II, page 243 [reading]:

> * * * I do not see how we can break with Germany on this note. However, I would make it very clear to the German Government, through both Gerard and Bernstorff, that the least infraction would entail an immediate severance of diplomatic relations; and I would let the public know unofficially that this has been done. We will then have to wait and hope for the best.

I call your attention, Mr. Chairman, to the first and last sentences in that note [reading]:

> I do not see how we can break with Germany on this note. * * * We will then have to wait and hope for the best.

The German reply was accepted and German-American relations improved and remained friendly during the summer and fall of 1916. That was during the campaign.

Again, after the peaceful settlement of the *Sussex* crisis, Colonel House approached Sir Edward Grey with regard to American intervention on the side of the Allies, to bring the war to an end, but the Allies at that time wanted no interference, and Colonel House on May 13, 1916, very pointedly records his disappointment. That is contained in exhibit 30, which I offer, taken from the diary of Colonel House, dated June 23, 1916, pages 217 and 218. I read:

> I believe the French and English are prolonging the war unnecessarily. It is stupid to refuse our proffered intervention on the terms I proposed in Paris and London. I made it clear to both Governments that in the event of intervention we would not countenance a peace that did not bring with it a plan which would make for permanent peace, as far as human foresight could do so. If Germany refused to acquiesce in such a settlement, I promised we would take the part of the Allies and try to force it. It would mean the end of militarism, but it would also mean an end of navalism, and that perhaps is where the shoe pinches. Great Britain desires to destroy militarism and at the same time perpetuate navalism, when the war has shown that of the two, navalism might be made the more oppressive of the two branches of military service. Under a liberal government, navalism or militarism would not be a menace, but under a reactionary government such as Great Britain might have, it could be made a serious menace to the happiness and freedom of mankind.

(The document referred to was marked "Exhibit No. 2534" and appears in full in the text.)

Senator CLARK. On September 25, 1916, Colonel House recorded in his diary [reading]:

> Walter Page called this afternoon. * * *
>
> He said the British resent our trying to bring about peace. * * * I did not think this was as ignoble an effort as it seemed to Page. He declares none of us understand the situation or the high purpose of the British in this war. I replied that we resented some of the cant and hypocrisy indulged in by the British; for instance, as to Belgium. Page admitted that the British would have been found fighting with France even if France had violated Belgium in order to reach German territory more effectively.

At times during our period of so-called neutrality, American public opinion had been exceedingly wrought up because of the British disregard of our neutral rights, as I have pointed out, but at no time, however, was public opinion so completely outraged as in the summer of 1916. The differences with Germany had been smoothed over and the numerous controversies with Great Britain appeared to be clamoring more loudly than ever for settlement. The American public and the administration were particularly excited over the intolerable British censorship of our mails.

I now submit committee exhibit 30–a, from the House collection in the custody of Prof. Charles Seymour, Yale University, a letter from President Wilson to Colonel House, dated at the White House, May 16, 1916.

(The document referred to, marked "Exhibit No. 2535", appears in full in the text.)

Senator CLARK. I will read the letter in full [reading]:

> MY DEAREST FRIEND: I have been giving some very careful thought to your question how we should deal with Sir Edward and his Government at this turning point—for it is really that.
>
> It seems to me that we should get down to hardpan.
>
> The situation has altered altogether since you had your conferences in London and Paris. The at least temporary removal of the acute German question has concentrated attention here on the altogether indefensible course Great Britain is pursuing with regard to trade to and from neutral ports and her quite intolerable interception of mails on the high seas carried by neutral ships. Recently there has been added the great shock, opinion in this country has received from the course of the British Government toward some of the Irish rebels.
>
> We are plainly face to face with this alternative, therefore. The United States must either make a decided move for peace (upon some basis that

promises to be permanent) or, if she postpones that, must insist to the limit upon her rights of trade and upon such freedom of the seas as international law already justifies her in insisting on as against Great Britain, with the same plain speaking and firmness that she has used against Germany. Which does Great Britain prefer? She cannot escape both. To do nothing is now, for us, impossible.

If we move for peace, it will be along these lines. 1. Such a settlement with regard to their own immediate interests as the belligerents may be able to agree upon. We have nothing material of any kind to ask for ourselves and are quite aware that we are in no sense or degree parties to the quarrel. Our interest is only in peace and its guarantees; 2 a universal alliance to maintain freedom of the seas and to prevent any war begun either (*a*) contrary to treaty convenants or (*b*) without warning and full inquiry—a virtual guarantee of territorial integrity and political independence.

It seems to me to be of imperative and pressing importance that Sir Edward should understand all this and that the crisis cannot be postponed; and it can be done with the most evident spirit of friendliness through you. Will you not prepare a full cable putting the whole thing plainly to him? We must act, and act at once, in the one direction or the other.

With affectionate messages from us all,

Faithfully yours,

(Signed) WOODROW WILSON.

I have noted what you send me from Bernstorff and also your suggestion about the campaign committee. I shall profit by the former and write you soon about the latter, with any suggestions I may pick up here

(Signed) W. W.

Then on July 18, 1916, the British Government published a proclamation blacklisting 85 American firms, a gesture which outraged President Wilson and caused a wave of indignation throughout the United States with tremendous anti-British repercussions throughout a large portion of the country.

President Wilson wrote House on July 23, 1916, that he was nearing the end of his patience with the British and the Allies, that he regarded the blacklist as a means to prevent our merchants' getting a foothold in the markets which Great Britain had hitherto controlled and all but dominated, that he was seriously considering asking Congress to authorize him to prohibit loans and restrict exportations to the Allies.

It is here for the first time that President Wilson indicates that he is no longer disposed to pursue the pro-Ally policy which had been pursued for 2 years last past. This was the turning point in his administration, the neutrality policy during the war.

The President was irritated with the British for not having utilized his offer of intervention, an offer that was definitely favorable to them, which had been proffered through Colonel House.

He was convinced of their disregard of American rights of trade, outraged by their mail censorship, and particularly outraged by their blacklisting. Even the extremely pro-Ally advisers of the President, Colonel House and Secretary Lansing, and Counselor Polk, with whom the President had surrounded himself, found the blacklist proclamation completely and plainly inexcusable.

On July 24, 1916, Mr. Polk commented to Secretary Lansing in this way, Mr. Lansing being at that time, I believe, on his vacation [reading from "Exhibit No. 2537"]:

I suppose you have followed the English blacklisting and have seen the mail note. The British Government certainly seems to be doing its best to get into a row. Personally, I think the time has come to stand up to them.

And then, on July 28, 1916, Polk wrote to Lansing as follows [reading from "Exhibit No. 2538"]:

> This week has been absolutely hideous * * * the blacklist has caused an awful row. The innocent and the guilty have come down here together, wildly protesting. It was an extraordinarily stupid move on the part of the British * * *.

I now offer exhibit 31, being a letter from President Wilson to Col. Edward M. House, New London, N. H., dated July 23, 1916.

I will read a portion of it and offer the whole for the record.

(The document referred to was marked "Exhibit No. 2536" and is included in the appendix on p. 8658.)

Senator Clark (reading):

> You will have seen by the papers that we have called Page home from London for a vacation in which it is our hope that he may get back a little way at least to the American point of view about things.
>
> I am, I must admit, about at the end of my patience with Great Britain and the Allies. This black-list business is the last straw. I have told Spring Rice so, and he sees the reasons very clearly. Both he and Jusserand think it is a stupid blunder. I am seriously considering asking Congress to authorize me to prohibit loans and restrict exportations to the Allies. It is becoming clear to me that there lies latent in this policy the wish to prevent our merchants getting a foothold in markets which Great Britain has hitherto controlled and all but dominated. Polk and I are compounding a very sharp note. I may feel obliged to make it as sharp and final as the one to Germany on the submarines. What is your own judgment? Can we any longer endure their intolerable course?

I also offer exhibit 32, being the letter from Counselor Polk to Secretary Lansing, of which I read a portion a moment ago.

(The document referred to was marked "Exhibit No. 2537" and is included in the appendix on p. 8659.)

Senator Clark. I will read one more paragraph from that exhibit:

> I also received your letter enclosing letter of Hamlin. I will take the matter up at once and will write Hamlin that I have the papers. I suppose you have followed the English blacklisting and have seen the Mail note. The British Government certainly seems to be doing its best to get into a row. I have had two talks with Spring Rice and told him that the President considered it a very serious matter and that it might be difficult to prevent Congress from passing some retaliatory legislation. Personally, I think the time has come to stand up to them. Of course, this blacklisting is nothing new, but if we let it slide, it will give the Germans abroad and here very good grounds for saying we are not even-handed in our justice. Why in the world they should have felt it necessary to publish it, Heaven knows.

Apparently Mr. Polk thought there was nothing wrong with the British establishing a blacklist of American firms, but that it was very culpable for them to publish it and give the Germans an excuse to protest.

I also offer exhibit 33, being a letter, of which I read a portion a moment ago, from Counselor Polk to Secretary Lansing, dated July 28, 1916.

(The document referred to was marked "Exhibit No. 2538" and is included in the appendix on p. 8660.)

Senator Clark. The indignation in this country was so intense that even J. P. Morgan & Co., were disturbed by the unwisdom of the blacklist.

In answer to an inquiry from Grenfell, in London, whether the American opposition was genuine or had been trumped up for political purposes, the firm sent the following answer on Augu 1916, being cable no. 23733, for E. C. Grenfell [reading]:

> In our opinion there is really strong feeling here with reference to bla and we do not believe this feeling is political. The word itself is a unpopular one in American business circles, being associated with trade cotts. It is, of course, assumed by intelligent people here that you are within your rights to issue orders to your own nationals not to trade wit' enemy or with those aiding or abetting the enemy. It was stated, howeve responsible papers here that the effect of your order was that if A, an Ame firm, was blacklisted, another firm, B, with no intention of aiding or abe Germany but merely dealing with A in the ordinary course of business w also be blacklisted. That is to say that your nationals were not only bidden to deal with those aiding or abetting the enemy, but with anyone traded with those aiding or abetting the enemy. See editorial in New Times of July 20, mailed you July 25. This editorial might be called fa representative of opinion of pro-ally press. We ourselves have regretted action which the Government deemed necessary.

The upshot of this flagrant British violation of our rights w that Congress was asked to adopt retaliatory legislation enabling t President to combat restrictions placed by foreign countries American commerce, obviously to be utilized against Great Britai

On September 7, 1916, the act to establish a United States Ship ping Board, and on September 8, 1916, the act to increase the revenu and for other purposes, which contained provisions empowering th President to take drastic retaliatory action against Great Britain were approved.

The provisions were discretionary rather than mandatory in character.

The next step was to ascertain how the legislation could be most effectively used by our Government. The Department of State was unwilling to pass on this question, and it met the situation by sending Mr. Woolsey, assistant solicitor for the Department of State, to consult with the Department of Commerce and to request a statement [reading]:

> * * * showing what measures could be taken in regulating trade that would be effective and, at the same time, least injurious to this country, and also a statement showing the exports of ammunition from the United States to the various belligerent countries.

I now offer exhibit 34, which is the memorandum for Dr. Pratt from the private secretary to the Secretary of Commerce, specifying the scope of the investigation desired, and a note from Dr. E. E. Pratt to the Secretary of Commerce, dated October 23, 1916, showing the care taken in making up this exhibit [reading]:

> Please note with special care the accompanying letter to the Secretary of State with the memorandum enclosed therein. This work was taken up at the request of Mr. Woolsey, assistant solicitor of the State Department, who called on Mr. Sweet—

Mr. Sweet was Assistant Secretary of Commerce—

> On account of the delicacy of the question and its great importance no pains have been spared in the preparation of the memorandum.

(The document referred to was marked "Exhibit No. 2539" and is included in the appendix on p. 8661.)

Senator CLARK. I also offer exhibit 35, a rather lengthy statement containing the recommendations of the Department of Commerce in the matter.

In view of the length of this, I desire to read only certain brief portions [reading from "Exhibit No. 2540"]:

> Probably the most effective remedy would be to refuse clearance to vessels carrying war supplies until the orders in council and the blacklist are withdrawn. This would seem to be strictly within the authority granted to the President by the Revenue Act, section 806, paragraph 2, "To withhold clearance from one or more vessels of such belligerent country." In effect, however, this would be to lay an American embargo, and Congress failed to authorize expressly the laying of an embargo. Moreover, it may be doubted whether an embargo on arms and ammunition would be as successful now as a year or more ago. More factories in the United Kingdom have been converted into munition plants. While our exports of arms and ammunition have been continuously on the increase, their need is now probably less pressing. In some cases, it is understood, American concerns have taken up this work only after a contract was given for a sufficiently long period to justify the necessary alterations or enlargement of the establishment. As a result, the embargo might prove in some cases more injurious to American manufacturers than to the countries at war, and might, in practice, effect the cancelation of a contract more highly regarded by the American concern than by the British Government.

A little later on he says [continuing reading]:

> Various possible measures have been pointed out. None of them, however, seem to promise any likelihood of success in the withdrawal of restrictions on American trade and would probably jeopardize our present position. In the belligerent countries, war for the moment is supreme; commercial considerations take a subordinate place. We can attack their commerce but our own commerce will unavoidably suffer in consequence even more than it has suffered from the restrictions placed on it by the countries at war.

Then a little further down he said:

> We have suffered the effect of embargoes and orders in council for a long period—under protest but without retaliation. The restrictions are no more hurtful now than a year and a half ago. But the weapon then in our hands—an embargo on war munitions and supplies—has become dulled.
>
> The most effective measure at our disposal is still a virtual embargo of arms and ammunition. It might still be applied if fully authorized by the Revenue Act, section 806, 2d paragraph, and if, upon investigation, it promises to be effective. To determine the first condition an authoritative legal opinion is necessary; to determine the second condition a report from a competent military authority should be had. A virtual embargo on wheat, though open to serious objections, comes second in point of availability.
>
> Before any action is taken, however, one other point must be carefully weighed. For success in commerce after the war, we need the friendship of the belligerents if it can be obtained and held without undue sacrifice. Is not their goodwill then likely to be worth more to us than the present temporary restrictions have cost us?

I offer the complete memorandum from the Department of Commerce for the record.

(The document referred to was marked "Exhibit No. 2540" and is included in the appendix on p. 8662.)

The **Chairman**. Might we weigh that point for just a moment here?

It appears now that Wilson was asking for retaliatory powers from the Congress. That is true, is it not?

Senator **Clark**. He not only asked for them, but the powers had been granted by Congress, and this memorandum was prepared in response to the request made of the Commerce Department by the State Department as to the means most effective of putting into effect the retaliatory powers already authorized by the Congress.

The **Chairman**. Then he found that the United States Congress would not permit their use accordingly?

Senator CLARK. He found, according to the memorandum of the Department of Commerce, first, an embargo or its equivalent would be a distinct injury to American commerce, both during the war and possible loss of goodwill of the belligerents after the war.

Also, it was found by the Department of Commerce that in view of the increasing supply of munitions being produced by the belligerents themselves, the weapon of an embargo would not be nearly as effective as it would have been a year or a year and a half previous.

The CHAIRMAN. Exactly.

Senator CLARK. In other words, we had, to some extent, at least, lost the opportunity of making the most effective use of the embargo on arms, and it was evidently the feeling of the Commerce Department that it was better to suffer British violations and Allied violations of our asserted neutral rights than run any risk of the loss of trade by asserting them and maintaining them by retaliatory measures.

The remarks of the Secretary of Commerce were made at the height of a 2⅕-billion-dollar increase in our war trade and at a time when it was perfectly clear that England proposed to continue her uninterrupted violation of our neutral rights, and of the freedom of the seas.

So that the effect of the Secretary of Commerce document was that our own high public officials recognized that the powers of retaliation conferred upon the President by Congress could not be invoked without endangering this huge, abnormal war-time trade in the face of the great vested interest in war traffic which had grown up in the United States by that time.

It is interesting to refer to the statistical abstract of the United States 1921, and find what that excess was.

The excess of domestic merchandise exports over imports jumped from $435,758,368 on June 30, 1914, to $1,042,008,725 on June 30, 1915, to $2,074,294,069 on June 30, 1916, or an increase of 139 percent from 1914 to 1915 and of 376 percent to 1916.

Trade with the Allied countries increased approximately 141 percent from 1914 to 1915 and jumped to 289 percent increase in 1916 as over 1914.

Trade with the Central Powers dropped in 1915 to 7 percent of its 1914 figure and to 0.68 percent of that 1914 figure in 1916. The net outstanding indebtedness of the Allies in the United States had been increasing by leaps and bounds.

On June 1, 1916, it was approximately $899,000,000. In 6 months it doubled itself and on December 1, 1916, stood around $1,794,000,000.

In that situation, faced with the choice of working havoc on the whole financial and commercial structure of this country, which by that time was inseparably bound up with the Allied cause, and which Wilson's pro-Ally policies, 1914 to 1916, had very definitely fostered, the President was forced to back down.

What had been intended as "a club for Great Britain if they do not give some real relief on trade interference"— and I quote from Colonel House's book, 2d volume, page 315, the language of the President, would have been a club against United States commerce and industry in this abnormal war trade which had been developed.

The result was that the club was never used.

The Wilson policies had placed no obstacle in the way of the Allies. They had permitted American financial and commercial interests to become completely involved in Allied success, how completely involved will be shown in a later study.

Most probably President Wilson was not conscious himself of the results which naturally flowed from the pro-Ally sympathies of his administration. He was convinced that, fundamentally, American and British aims were similar.

He suffered disillusionment when the British showed no interest in American intervention, and growing irritation as they became increasingly flagrant in their violations of our rights in the spring and summer of 1916. He decided at that time, apparently, to make the British understand that the United States was to be respected in its assertion of our neutral rights, but the decision or the awakening on the part of the President very obviously came too late, because a vested interest had been created in the shape of this war trade which was too formidable to be tampered with by the President, particularly at a time when he was facing a Presidential election.

It should be recalled that Germany in her pledge as to the *Sussex* had said that if the United States did nothing to break the illegal blockade of Germany by Great Britain, by demanding that Great Britain cease her interference with American neutral trade, the German Government, in self-defense, might have to revert to unrestricted submarine warfare.

The adoption of the retaliatory legislation to which I have referred in September of 1916 had been taken as a hopeful sign, but its lack of application, of course, could not pass unnoticed by the German Government.

It was a matter of common knowledge that in spite of the passage of the retaliatory legislation, no use was being made of it, and that no bona-fide attempt was being made to wring concessions in respect of international law from Great Britain by the American Government.

Bernstorff tells us that Colonel House had already, some months before, told him that the United States was no longer in a position to take drastic measures against England. This is quoted from the *Official German Documents Relating to the World War*, volume 1, page 234. Quoting Von Bernstorff:

> He told me at that time that, as matters had turned out, Wilson no longer had the power to compel England to adhere to the principles of international law. That the reason for this was that American commerce was so completely tied up with the interests of the Entente that it was impossible for Wilson to disturb these commercial relations without calling forth such a storm of protest on the part of the public that he would not be able to carry out his intention.

I quote from the memoirs of David Lloyd George, volume II, pages 661–2:

Senator Clark. House told Von Bernstorff, according to Von Bernstorff's testimony.

Lloyd George, in his memoirs, has also emphasized the effect on American policy of the links between American financial and commercial interests and the cause of the Allies.

I quote from the memoirs of David Lloyd George:[1]

If we were interfering with America's potential trade with our enemies, at least we were providing her with a magnificent market in Britain, France, and Russia, which stimulated her industries to an unprecedented level of activity and profitableness. This fact had its influence in holding back the hand of the American Government whenever excited to intense irritation by some new incident of the blockade, it contemplated retaliatory measures.

Andre Tardieu, who was French High Commissioner in the United States after this country entered the war, afterward Prime Minister of France, similarly has written that the tie-up between American commercial and financial interests and the Allies during our neutrality period made victory of the Allies essential to the United States.

I quote from his book, *France and America*, page 150 and 151:

But the increasing volume of allied needs afforded the Americans almost unlimited trade possibilities. Prices had risen enormously. Profits had swollen tenfold. The Allies had become the sole customer of the United States. Loans the Allies had obtained from New York banks swept the gold of Europe into American coffers.

From that time on, whether desired or not, the victory of the Allies became essential to the United States. The vacillations of Wilson's policy only made this necessity more apparent. The note of the Federal Reserve Board forbidding further loans to the Allies jeopardized American financial interests as much as it did the fate of the Allies. This note, coming too late or too soon, placed buyers and sellers, borrowers and lenders, in equal peril. If, deprived of resources, the Allies lost the war, how could their debts be paid and what would their signature be worth? The carefully weighed policy of the President, permitting sales and stopping credits, worked against neutrality and in favor of a break; it worked against Germany and in favor of the Allies. Between the Allies and the American market a common bond of interest had been created.

All through the fall of 1916, the Administration in Washington was kept informed of the inevitable resumption of indiscriminate submarine warfare as the food situation in Germany grew more desperate and Germany became convinced that the United States would do nothing to alleviate the rigors of the so-called blockade of Germany by Great Britain.

I quote now from a report from Acting Ambassador Grew in Berlin on October 7, 1916:

In an informal conversation with Zimmerman last night I told him unofficially that I feared my Government might become disquieted over the rumors in the press and elsewhere of a possible resumption of indiscriminate submarine warfare in violation of neutral rights. He added * * * that the submarine question as a political issue would never be finally laid at rest until the United States should bring pressure to bear on England to abandon the blockade, and he said that any steps taken in that direction would materially aid the Chancellor in dealing with those who wished to resume the indiscriminate submarine warfare here.

Then, on September 15, just a few days before that, Ambassador Elkus, who was at that time American Ambassador to Turkey, passed through Germany en route to Constantinople, and reported to Secretary Lansing as follows [reading from "Exhibit No. 2541"]:

As you probably know, there are 2 no-meat days in Germany, and bread, meat, eggs, sugar, coffee, soap, etc., are distributed upon cards, as are also articles of clothing. Coffee, sugar, and milk are very difficult to obtain. The coffee is very poor; a substitute for it that is used consists of roasted bread and some kinds of beans. The absence of this is very much felt. There is no real milk to be had, only skimmed milk. The government allows one egg per person per week, one-eighth pound of meat per person per week, a similar allowance of skimmed milk, practically no sugar, and a very small quantity of butter per person per week. Potatoes and bread, such as it is, are fairly plentiful, and while filling, the people find them absolutely unsatisfying. The middle classes and the poor people talk of nothing but food, and when they speak frankly, as they did to me in their homes, they said that they were always hungry.

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[1] Volume II, pp. 661–662.

I was also told unofficially that there was a great increase in tuberculosis cases because of the lack of sufficient proper food. * * * There is still a great dislike of America and Americans, which is based on three grounds: First, supplying ammunition to the Allies; second, the stopping of the submarine warfare; and, three, permitting England to interfere with the neutral mails, etc.

The American Chargé d'Affaires in Berlin, on October 16, 1916, has this report to make [reading from "Exhibit No. 2542"]:

The Navy as a whole is convinced that the submarine warfare must be taken up again and pushed to its extreme form in order to save the situation, and it is reported that a round-robin letter, signed by all the officers of the Navy, has been addressed to the Emperor, calling upon him to adopt this method of warfare in order that the war may be won. * * *

As far as can be made out, then, there was about 10 days ago a belief in the admiralty staff that the political situation was such that the resumption of the "rucksichtslos" submarine warfare against commerce would be permitted them. The political leaders, however, failed to carry this point against the opposition of the Chancellor and, in fact, receded for the present from their position and gave the Chancellor support in his milder policy. The Navy, therefore, postponed any plans it may have had for taking up an extreme form of submarine warfare and are waiting until the Government is forced to their views, which are that the only way of winning the war is to strike with all their force against the English economic life by way of an extreme form of submarine warfare; i. e., by sinking everything that approaches the English and French coasts.

I wish, however, to repeat what I have endeavored to indicate in my various confidential telegrams to the Department, that while the political outlook is for the present moment reassuring, there is no permanent security to be looked for in the situation, in view of the attitude of the Navy, the Conservative Party and its allies in the Reichstag, and the majority of public opinion, and that our Government should, therefore, be fully prepared for an eventual resumption of the indiscriminate submarine warfare against commerce in violation of the rights of neutrals on the high seas.

On October 27, 1916, House recorded in his diary [reading from "Exhibit No. 2543"]:

Polk agreed with me that unless the British helped in some way, unrestricted U-boat warfare may soon begin.

I now offer exhibit 36, which is the letter from Ambassador Elkus, of which I read a portion a while ago.

(The document referred to was marked "Exhibit No. 2541" and is included in the appendix on p. 8672.)

Senator **Clark**. One other sentence, perhaps, from this letter of Ambassador Elkus is worthy of note [reading]:

Feeling about America. There is still a great dislike of America and Americans which is based on three grounds—

Which I read—

But despite all this, they all look to President Wilson as the only commanding figure in the world who will be able to bring about peace. Mr. Gerard told me, and it is rumored and talked about among the people, that because of the dissatisfaction with the present administration in Germany that the present Chancellor will be succeeded by Von Tirpitz or Falkenhayn—

That is, dissatisfaction with the policy of the Chancellor in stopping unrestricted submarine warfare and the hope that the United States would assert its neutral rights as against England.

> Von Tirpitz is still demanding the resumption of submarine warfare and in case of his selection it would mean the resumption of that kind of warfare.

I also offer exhibit 37, being the report of the Chargé d'Affaires, to which I just referred.

(The document referred to was marked "Exhibit No. 2542" and is included in the appendix on p. 8673.)

Senator CLARK. I now read the whole of the memorandum of Colonel House to which I just made reference.

(The document referred to was marked "Exhibit No. 2543" and appears in full in the text.)

Senator CLARK. This is from Colonel House's diary, on October 27, 1916 [reading "Exhibit No. 2543"]:

> Polk agreed with me that unless the British helped in some way, unrestricted U-boat warfare may soon begin. We think the British foolish not to give way on the blacklist, and to arrange for less rigorous censorship of the mails. It is a question how far the President will be justified in straining our relations with Great Britain rather than consent to their insolent methods of conducting their blockade. A note has just come from Great Britain about the blacklist which Polk considers offensive, although Lansing thinks otherwise. He did not bring a copy of the note because it had just come and he was afraid to have one made. The State Department will try to suppress the note until after the election. Polk thinks the President is likely to give them a jolt which will not increase good feeling toward us. He suggests two methods to bring them to their senses. One is the restriction of further loans and the exportation of gasoline. He thought we might do both under pretext of domestic necessity and in a way which would not justify retaliation.

The CHAIRMAN. In other words, Senator Clark, we were being warned, were we not, in those days, all through that year, of the possible resumption of submarine warfare?

Senator CLARK. We were being warned, not only in the original note of the German Government after the *Sussex incident*, in which they promised to stop unrestricted submarine warfare, but we were repeatedly warned by our own Ambassador, by the Acting Ambassador and by the Chargé d'Affaires at different times, as well as by the information supplied by the American Ambassador to Turkey who passed through Germany.

The CHAIRMAN. Resumption then should have been no surprise to the American Government, should it, after all of these warnings through the fall of 1916?

Senator CLARK. No question on earth.

The CHAIRMAN. It was not a surprise?

Senator CLARK. And it was no surprise that England did not intend to accede to the demands of the United States with regard to the blacklist, as indicated by this entry from Colonel House's diary which I have just read [reading from "Exhibit No. 2543"]:

> A note has just come from Great Britain about the blacklist, which Polk considers offensive, although Lansing thinks otherwise. He did not bring a copy of the note because it had just come and he was afraid to have one made. The State Department will try to suppress the note until after the election.

I also offer exhibit 39, being an entry in Colonel House's diary, dated November 16, 1916.

(The document referred to was marked "Exhibit No. 2544" and appears in full in the text.)

Senator CLARK (reading "Exhibit No. 2544"):

> Ambassador Gerard called to talk about my visit to Washington. He believes Germany will finally push us into war because of her desperation. He wishes me to return to Germany with him. I told him this was out of the question, and I thought when matters were finally adjusted between the belligerents, it would not be necessary for me to go to Germany; that in some ways it would be better for me to look out for the Allied countries and not create criticism by going into Germany.

That was before the resumption of unrestricted warfare and at a time when there were extremely strained relations between the United States and the Allies.

Colonel House thought he did not want to create criticism by going into Germany, and he had better look out for the Allies.

It is clear that the administration, of course, was well informed of the situation in Germany, the struggle between the civil faction which wanted to avoid a break with the United States and the military and naval faction, which insisted that the war could only be ended by the renewal of indiscriminate submarine warfare, the constant suggestion from Germany that the United States do something about the blockade thereby to lessen the necessity of eventual resumption of submarine warfare.

The administration in Washington was completely aware of all this, of course, but it did nothing. The drastic measures which might have forced Great Britain to respect our neutral rights and thereby relax its illegal blockade of Germany, the President had discovered he could not use without endangering this country's financial and commercial interests, which were dependent upon allied success.

The country did not realize when Wilson stood for reelection in 1916 on the slogan, "He kept us out of war", that the stress of circumstances would force Germany into ruthless submarine warfare; that the United States had done nothing to prevent that recurrence; that no steps had been taken to force respect from Great Britain because the tie-up between their cause and our interests, industrial and financial, would not permit it; and that when the submarine crisis broke out, which Berlin, all through the fall of 1916, had been informing Washington would almost inevitably happen, the United States would be in the war.

In order that there may be no mistake as to the question of whether or not the submarine warfare was a contributing, if not the principal, cause of the United States getting into the war, I quote from the testimony of President Wilson himself after the war, before the Senate Committee on Foreign Relations, when it had under consideration the Treaty of Versailles, on August 19, 1919, when the following transpired [reading]:

> Senator MCCUMBER. Do you think if Germany had committeed no act of war or no act of injustice against our citizens that we would have gotten into this war?
>
> The PRESIDENT. I do think so.
>
> Senator MCCUMBER. You think we would have gotten in anyway?
>
> The PRESIDENT. I do.

I want to read that again, Mr. Chairman:

Senator McCumber. Do you think if Germany had committed no act of war or no act of injustice against our citizens that we would have gotten into this war?

The President. I do think so.

Senator McCumber. You think we would have gotten in anyway?

The President. I do.

I now desire to offer exhibit 39A, being a cablegram from Ambassador Page in London to the Secretary of State, dated March 5, 1917.

(The document referred to was marked "Exhibit No. 2545", and appears in full in the text.)

Senator Clark (reading "Exhibit No. 2545"):

My 5644, February 9, 10 a. m. The financial inquiries made here reveal an international condition most alarming to the American financial and industrial outlook. England is obliged to finance her allies as well as to meet her own war expenses. She has as yet been able to do these tasks out of her own resources. But in addition to these tasks she cannot continue her present large purchases in the United States without shipments of gold to pay for them, and she cannot maintain large shipments of gold for two reasons: First, both England and France must retain most of the gold they have to keep their paper money at par; and, second, the submarine has made the shipping of gold too hazardous, even if they had it to ship. The almost immediate danger, therefore, is that Franco-American and Anglo-American exchange will be so disturbed——

There is our old friend exchange again—

that orders by all the allied governments will be reduced to the lowest minimum and there will be almost a cessation of trans-Atlantic trade. This will, of course, cause a panic in the United States. The world will be divided into two hemispheres, one of which has gold and commodities and the other, which needs these commodities, will have no money to pay for them and practically no commodities of their own to exchange for them. The financial and commercial result will be almost as bad for one as for the other. This condition may soon come suddenly unless action is quickly taken to prevent it. France and England must have a large enough credit in the United States to prevent the collapse of world trade and of the whole European finance.

If we should go to war with Germany, the greatest help we could give the Allies would be such a credit. In that case our Government could, if it would, make a large investment in a Franco-British loan or might guarantee such a loan. All the money would be kept in our own country, trade would be continued and enlarged until the war ends, and after the war Europe would continue to buy food and would buy from us also an enormous supply of things to reequip her peace industries. We should thus reap the profit of an uninterrupted, perhaps an enlarging, trade over a number of years and we should hold their securities in payment.

But if we hold most of the money and Europe cannot pay for reequipment, there may be a world-wide panic for an indefinite period.

Unless we go to war with Germany, our Government, of course, cannot make such a direct grant of credit, but is there no way in which our Government might indirectly, immediately, help the establishment in the United States of a large Franco-British credit without a violation of armed neutrality? I am not sufficiently acquainted with our own reserve-bank law to form an opinion, but if these banks were able to establish such a credit, they would avert this danger. It is a danger for us more real and imminent, I think, than the public on either side of the ocean realize. If it be not averted before its symptoms become apparent, it will then be too late to avert it. I think that the pressure of this approaching crisis has gone beyond the ability of the Morgan financial agency for the British and French Governments. The need is becoming too great and urgent for any private agency to meet, for every such agency has to encounter jealousies of rivals and of sections.

Perhaps our going to war is the only way in which our present prominent trade position can be maintained and a panic averted. The submarine has

> added the last item to the danger of a financial world crash. During a period of uncertainty about our being drawn into the war, no more considerable credit can be privately placed in the United States, and a collapse may come in the meantime.

The CHAIRMAN. What was the date of that?

Senator CLARK. That is March 5, 1917, just a little less than a month before we actually entered the war.

It is entirely possible that the President may have had Ambassador Page's attitude in mind after the war when he testified before the Senate Foreign Relations Committee as I have just read.

The CHAIRMAN. Plainly the Ambassador in London was convinced that our commerce was going to be all but destroyed if we did not go to war.

Senator CLARK. That is very evident; so evident that I might quote from even so partial an historian as Prof. Charles Seymour of Yale, Colonel House's chief eulogist and apologist, in which he says [reading]:

> * * * by a slightly stricter interpretation of the role of a neutral, President Wilson could have prevented the enormous loans, the shipments of munitions . . . (to the Allies) . . . he had compelled the Berlin Government to submit to his point of view and thereby had incidentally protected Allied shipping . . . he had disallowed their (Germany's) contention that armed merchant vessels were in effect warships. . . .
>
> . . . he had finally, after the attack on the *Sussex*, forced the pledge (by Germany) that no merchant vessel whatever should be attacked without warning. This was at a moment when von Tirpitz promised that if the submarines should be given full freedom, Great Britain would be isolated and the war ended. Wilson's insistence saved the British merchant fleet from the intensive submarine attack, the danger of which became apparent a year later, and for which German naval leaders already clamored.

Professor Seymour goes on to say that President Wilson's great services to the Allies were not properly appreciated by the Allies. I quote further:[1]

> * * * Nor did they appear to realize the degree of consideration which he displayed in the dispute raised by allied interference with American trade on the high seas. It is true that our State Department sent many sharp—perhaps uselessly sharp—protests. But the President never yielded to the constant pressure upon him to take action that might give effect to such protests. It would have been easy for him to ask for retaliatory measures which would have been immediately approved by a Congress that was in no degree inspired by pro-Entente sentiments. An embargo upon munitions was urged again and again. Wilson, however, did not ask for power to use retaliation until the summer of 1916, and he never permitted an embargo, thus allowing the Allies to draw richly upon our munitions factories * * *.

RELATIONSHIP BETWEEN THE ALLIED WAR AIMS AND THE POLICIES OF THE UNITED STATES

Senator CLARK. Mr. Chairman, we come finally in this study to the consideration of the relationship between the American policies and the secret treaties negotiated by the Allies prior to the entrance of the United States into the war.

In spite of having succumbed, by force of circumstance, to the economic interests that subtly determined our foreign policy during the most crucial months in the fall of 1916, President Wilson had not given up his dreams of intervention and a peace conference at which he would preside.

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[1] *Intimate Papers of Colonel House,* Vol. II, pp. 260–262.

Of that ambition his Secretary of State Lansing has remarked, and I quote from Secretary Lansing's War Memoirs:

> While at the outset * * * the motive inspiring the efforts of Mr. Wilson was essentially impersonal, humanitarian, and altruistic, I believe that the thought of his actual presence and participation in a conference to arrange terms of peace had appealed more and more strongly to him until it had become, possibly unconsciously, an end rather than a means. * * *
>
> It was a great role which he intended to play in the event that the belligerents could be induced to enter into conference, the role of an impartial mediator between the great powers at war and that of creator of a world federation to preserve international peace. It was a splendid ambition, a great absorbing purpose, and if the President had been able to attain it, of which there never was the slightest chance, there is little doubt but that he would have been not only the leader of international thought but the most preeminent personality in the history of modern times.

The plans which had been made by President Wilson and Colonel House early in 1916 to intervene with the proposal for a peace conference had never been availed of by the Allies, to whom the agreement was extremely favorable.

In the fall of 1916, as has been pointed out, this country was continually receiving word that Germany would have to resume indiscriminate submarine warfare.

We received this word from our own representatives in Germany as well as from the German Ambassador here.

On October 18, 1916, Bernstorff communicated with Colonel House to the effect that his Government could not stand the war deadlock and inquired whether Wilson had any intention of initiating peace negotiations as had been hinted by Ambassador Gerard in Berlin in the previous spring.

I quote from the Intimate Papers of Colonel House, volume 2, page 335. House reports von Bernstorff as saying [reading]:

> In view of the methods of our enemies, which become more ruthless every day—Greece, blockade, illegal pressure on neutrals—my Government wishes to remind Mr. Gerard of the confidential negotiations which were carried on last spring.

In regard to the confidential negotiations carried on by Gerard in the previous spring, the following enclosure was transmitted with the letter [reading]:

> Your Excellency hinted to His Majesty in your last conversation at Charleville in April, that President Wilson possibly would try toward the end of the summer to offer his good services to the belligerents for the promotion of peace.
>
> The German Government has no information as to whether the President adheres to this idea and as to the eventual date at which this step would take place. Meanwhile, the constellation of war has taken such a form that the German Government foresees the time at which it will be forced to regain the freedom of action that it has reserved to itself in the note of May 4 last—

That was the *Sussex* note—

> and thus the President's steps may be jeopardized. The German Government thinks it its duty to communicate this fact to Your Excellency in case you should find that the date of the intended action of the President should be far advanced toward the end of this year.

That meant that in effect the German Government was saying to the United States that since we had done nothing and apparently could do nothing about the relaxation of illegal blockade measures, would we do anything in the way of attempting peace negotiations?

President Wilson postponed any move toward attempting peace negotiations until after the Presidential election of 1916, but as soon as it was over, his thoughts turned immediately and concretely toward peace.

In the face of the policies that he had pursued and the realization that Germany would have to resort to ruthless submarine warfare, the President grasped the idea that a successful move toward peace was the only means of keeping the United States from being compelled to join in with the Allies.

Colonel House was opposed to this peace move, for he was sure the Allies would not be receptive to it. His biographer tells us that—

> he was certain that neither France nor Great Britain would regard an attempt at mediation in any light but that of a willingness to play Germany's hand.

That is quoted from the Intimate Papers of Colonel House, volume 2, page 395.

It must be remembered that France and Britain had never given any indication of their willingness to have Wilson offer mediation, nor had they availed themselves of the Wilson offer to intervene on their side.

Perhaps Colonel House had forgotten that, and also the very illuminating entry in his diary of November 17, 1916, from the House Collection, custody of Professor Charles Seymour of Yale University, which I offer for the record.

(The document referred to was marked "Exhibit No. 2546", and appears in full in the text.)

Senator Clark (reading "Exhibit No. 2546"):

> I will confess that the Allies are irritating almost beyond endurance. It is evident they are trying to force us into war with Germany. Our prosperity and growing strength maddens them. I believe this is confined largely to the governing class, nevertheless, the danger is the greater because this is true. They cannot understand why we do not feel that they are fighting our battles. We have no fear of Germany and feel entirely able to take care of ourselves.

President Wilson hesitated to make any move toward peace until, as House's biographer says, on December 12, 1916, the Germans, "wearied of waiting for Wilson's mediation", made a peace move of their own—"published a note which expressed their willingness to enter a peace conference." The Allies completely rejected it. In the words of Secretary Lansing, our Secretary of State, from his *War Memoirs*, page 192 [reading]:

> The joint reply of the Allies to the German proposal was delivered formally to Ambassador Sharp at Paris on December 30 for transmission to Germany and her allies, and was made public the following day. It was a bitter arraignment of the Central Alliance. It closed and barred the door to any negotiations with the enemy or to any interchange of views as to bases for peace. It left nothing to be said. It practically ended for the time all hope of negotiating peace.

In the meantime, President Wilson had arrived at a decision, and on December 18 made his peace move—a suggestion that the belligerent governments communicate their terms of peace. This he did in spite of the fact that, as Secretary Lansing tells us, this Government had been informed on December 15 through our Ambassador in London that the Allies would flatly reject the German note.

I quote again from Secretary Lansing, page 186 [reading]:

> * * * This information * * * did not deter him from his purpose, nor do I think that it caused him to modify his language. He calmly went on preparing the note as if nothing had happened, and on the 18th completed his final revision and directed it to be sent.

On January 10, 1917, the Allies made a joint reply to President Wilson's note, which set forth peace terms that only a completely defeated Germany could have accepted, and which said as well [reading from "Exhibit No. 2547"]:

> They (the Allies) consider that the note which they sent to the United States in reply to the German note will be a response to the questions put by the American Government and, according to the exact words of the latter, constitute a public declaration as to the conditions upon which the war could be terminated.

I now offer committee exhibit 41, being the whole of the Allied response to President Wilson's note.

(The document referred to was marked "Exhibit No. 2547" and is included in the appendix on p. 8677.)

Senator CLARK. Great Britain realized that this country had long since abandoned any idea of compelling respect from her; they all realized, as Lloyd George frankly confessed, that the tie-up between American commerce and finance and the allied cause always operated to stay President Wilson's hand. Sir Gilbert Parker, who at that time, and who for some time prior thereto had been the head of the propaganda bureau of Great Britain in the United States, in a letter to Lloyd George, shortly after the Presidential election in November of 1916, also strikingly presented the British attitude toward this Government. I quote from Sir Gilbert Parker, in Lloyd George's Memoirs, Volume II, pages 1648 and 1649 [reading]:

> * * * We know how Mr. Wilson stands and we may feel very sure that he will do nothing of a serious nature to interfere with the blockade or the export of munitions, which are the two vital points. * * *
>
> * * * Wilson owes his victory in the election very largely to the fact that he has kept the country out of the war, and I have not a doubt that his greatest ambition during the next 4 years will be to act as mediator. Therefore, we have constantly to be on the lookout for some steps in this direction at Washington.

In desperation, finally, and as their only chance of success, Germany did, on January 31, 1917, what this Government knew all through the fall of 1916 she would be driven to do. She announced unrestricted submarine warfare. For its resumption America's complete lack of neutrality, as this record has abundantly shown, was in large part responsible. Even in November of 1916 during the visit of Ambassador Gerard to the United States, he had stated to Colonel House his belief that Germany would finally push us into the war because of her desperation.

And on January 31, 1917, Gerard, back in Berlin, cabled a conversation with Zimmerman, the German Foreign Secretary, in regard to Germany's decision.

I offer as committee exhibit no. 42, the cablegram from Berlin just referred to.

(The document referred to was marked "Exhibit No. 2548" and is included in the appendix on p. 8680.)

Senator CLARK. The pro-Ally policies of President Wilson during the first 2 years of the war had permitted and fostered the growth of a vested interest in Allied success on the part of great commercial and financial interests. That vested interest had prevented President Wilson from employing any penalizing measures against Great Britain in the fall of 1916, had eliminated any such thing as neutrality on the part of the United States, had led President Wilson to follow a course from which he dared not deviate—a course which spelled, inevitably, ruthless submarine warfare and the entrance of the United States into the war.

The President hesitated for some weeks before he called Congress together to declare that a state of war existed. The President told the Congress of the United States we would fight to make the world safe for democracy, to vindicate the principles of peace and justice, and, without doubt, these were lofty sentiments.

President Wilson knew when he uttered them that the Allies were parties to a series of secret agreements which divided up the spoils of war in a manner far removed from the principles of peace and justice. Page in London, Page in Rome, Francis in Russia, had all of them at different times despatched hints and news regarding these secret treaties. Colonel House, Wilson's confidential adviser, knew about them. But, as Secretary of State Lansing has said of President Wilson in *War Memoirs*, page 204 [reading]:

> * * * If facts were hostile to his intentions or seemed to stand in the way of his settled purpose, he was disposed either to ignore entirely their existence or to refuse to recognize them as controlling. * * * He seemed to be striving to convince himself that everything was favorable to his plans by blinding himself to a disagreeable truth and by showing that he did not desire to have it told to him. * * * He resented having his ideas bound down by the logic of events.

As early as May 8, 1915, Walter Hines Page had cabled the State Department from London [reading]:

> The foreign editor of the Times, a usually well-informed and trustworthy man, who knows all the principal European statesmen, is just returned from a week in France. He tells me in strictest confidence that England, France, and Russia made a bargain with Italy on April 30 agreeing to cede to Italy very large parts of Austrian territory, some of which had a Slavic population, if Italy comes into the war within a month. This was done without consulting Servia and against her wishes. Italy will soon come in if she keeps her agreement, to be followed by Rumania. I have heard unofficial confirmation of this agreement here.

On January 22, 1917, Thomas Nelson Page, the American Ambassador to Italy, wrote a letter to Secretary Lansing which he asked him to show the President, conveying confidential information respecting Allied secret agreements. I quote a portion of that [reading from "Exhibit 2549"]:

> Also that when in the autumn of 1914 the conference of the Allies took place in London at the time, I think it was, when England secured the promise from the Allies that no one would make a separate peace but that all would stand together to the end, Russia presented Poincaré's written engagement—that she should have Constantinople and the Straits—and England had to yield to secure her engagement not to make a separate peace.

That is offered for the record, being committee exhibit 43.

(The document referred to was marked "Exhibit No. 2549" and is included in the appendix on p. 8680.)

Senator Clark. On the same day a letter from Thomas Nelson Page directly to the President along the same lines [reading from "Exhibit No. 2550"]:

> The unknown quantity in the present problem, here as least, seems to be Russia. * * * One thing, however, appears reasonably certain, that Russia has recently been on the verge of making some sort of separate accommodation, if not actually a separate peace, and the whole matter of the Dardanelles and Constantinople has come out in consequence of this fact. As my telegram of yesterday stated, Russia seems to be in a fair way of getting from the other Allies a hand sufficiently free to give her a very preponderant position as regards not only eastern and southeastern Europe, but even the Orient itself. I draw from this the conclusion that it was necessary to make large concessions to Russia, either to secure her continued cooperation or to make it appear worthwhile to her to face the conditions in which she finds herself and to put forth extraordinary efforts.

I now offer committee exhibit 43, which is the letter from Thomas Nelson Page to the Secretary of State, dated at London, January 22, 1917; also the letter from Ambassador Page at London to the President, dated January 2, 1917, being exhibit 44.

(The document was thereupon marked "Exhibit No. 2550" and is included in the appendix on p. 8681.)

Senator Clark. I also offer Committee exhibit 45, being a letter from Ambassador Francis, in Russia, dated at Petrograd, January 29/February 11, 1917, directed to the Secretary of State, of which I will read a portion [reading from "Exhibit No. 2551"]:

> I have written you time and again how direct commerce with America is interfered with by British dictation and if I have not written you that the people and the commercial circles here both are becoming restive under that domination, I certainly meant to do so. I do recall, however, having written to either you or Polk that the Russians are saying that if they were going to have a commercial master, there is no reason why they should have changed from Germany, especially when the change has entailed such a great cost. It is true that England is financing Russia and has the power to require an approval of how the money advanced should be expended, and it must also be admitted that in doing so England is exercising a right which any country or Government might be expected to exercise under the circumstances. England should not forget, however, that she is only able to finance Russia and the other Allies by the assistance she gets from the United States.

(The document referred to was marked "Exhibit No. 2551" and is included in the appendix on p. 8684.)

Senator Clark. I now offer Committee exhibit 46, which is a further letter from Ambassador Francis; and Committee exhibit 47, being a letter from Ambassador Page in Italy—Thomas Nelson Page—dated March 20, 1917.

(The documents referred to were marked "Exhibits Nos. 2552 and 2553" and are included in the appendix on pp. 8686 and 8688.)

Senator Clark. I desire to read a portion of Committee exhibit 47, being the letter from Thomas Nelson Page to the Secretary of State [reading from "Exhibit No. 2553"]:

> One result of the present situation is that Italy finds herself almost completely in the power of England, who has been mainly financing her, and who not unnaturally perhaps has taken measure which many Italians consider far more for England's interest, at least immediate interest, than for that of Italy. In fact, there is much grumbling over England's control of matters of great, if not of vital importance, to Italy. An example of this was England's recent orders against the importation of articles from abroad, which include articles of Italian production whose exportation is of great importance to Italy. For example, fruits, wine, silk, carved stone, wood, etc.

> * * * In this connection it seems not out of place to mention a fact that was told me the other day by General Ricciotti Garibaldi.
>
> He says that he was in London a few months back and attended a dinner at which a number of important persons were invited to meet him, and in the course of the conversation he asked how the Allies were going to pay their debts when the war was over. On this point, an Englishman whom he spoke of as a man of great importance and wealth, worth, he said about 40 million dollars, said, "Why, we will make America (the United States) pay for them." "How will you do this?" asked General Garibaldi. "Why", said the other, "England will at the close of the war control all of the markets of the world, and if necessary we will put an ad valorem tax of 100 percent which will have the effect of making America pay the debts."

During the course of his various peace trips to Europe, Colonel House had learned about the secret treaties and knew therefore the intentions of the Allies with respect to cutting up the map of Europe at the end of the war. Professor Seymour tells us that—[1]

> Colonel House knew of the secret treaties. He had told the President of the Treaty of London before Italy entered the war, and Grey had told him of the demands of Rumania, so that he must have guessed the terms upon which she entered the war.

In spite of the strategic position of the United States economically, her resources, money, and men which Britain and France had to have the President found it possible to ask Congress to declare a state of war between the United States and Germany without insisting that the secret treaties be renounced and without an understanding with the Allies that the American Treasury would not open its door and pour out money to them in order to remake the map of Europe to give France security and crush Germany as a powerful economic rival to England. The governing officials of the United States, apparently, never appreciated the position of strength of the United States—to press the Allies in regard to the secret treaties might have led to disagreements, so that the matter was dropped, as is here indicated.

Immediately after the entrance of the United States into the war, a mission headed by Balfour, British Foreign Secretary, came to this country to discuss with the administration problems of cooperation—shipping, finance, and so forth—and at that time the secret treaties were fully discussed with President Wilson, Colonel House, and Secretary Lansing. House records the following from his conference with Balfour [reading]:

> "This led me to ask", House continued, "what treaties were out between the Allies as to the division of spoils after the war. He said they had treaties with one another, and that when Italy came in they made one with her in which they had promised pretty much what she demanded."

Further on, he says:

> Crossing the Bosphorus we came to Anatolia. It is here that the secret treaties between the Allies come in most prominently. They have agreed to give Russia a sphere of influence in Armenia and the northern part. The British take in Mesopotamia (and the region) which is contiguous to Egypt. France and Italy each have their spheres embracing the balance of Anatolia up to the Straits.

House's comment was [reading]:

> It is all bad, and I told Balfour so. They are making it a breeding place for future war. * * *

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[1] *Intimate Papers of Colonel House,* Vol. III, p. 40.

Balfour had his intimate conference with Wilson in the evening of April 30, 1917, at the White House. Colonel House was present also, and of this conference he says:[1]

> The ground we covered was exactly the same as Balfour and I had covered in our conference Saturday.

House spoke to Balfour of the desirability of giving copies of the Allies' treaties to the President. This Balfour agreed to do.

In his memoirs, Volume III, pages 1686 and 1687, David Lloyd George speaks of the Balfour Mission to the United States in April 1917 [reading]:

> Mention was made of the various secret treaties which had been concluded with Russia and Italy about territorial changes which it would be the allied purpose to effect if successful, and Mr. Balfour described in detail these agreements and offered repeatedly to supply copies of the treaties to the President. * * * He was obviously anxious not to be informed in writing of the details, as he did not wish to be embarrassed by being "affected with notice."

From Mr. Balfour himself is the following extract[2] [reading]:

> A social engagement of singular interest and importance that I fulfilled in Washington soon after my arrival was a dinner of four at the White House, the party consisting of the President, Mrs. Wilson, Colonel House, and myself. From this conversation no subject connected with the war was excluded. We were all absorbed in the problem of successful cooperation, and as this necessarily involved ranging over the immense field of our common interests, a singular unanimity brooded over our friendly discussions. I think the question of the secret treaties was raised by the President after we had left the dinner table. There were no secrets between us, then or afterward, on any of the many subjects that came up for discussion.

At this point, Mr. Chairman, I may say that the Committee has taken cognizance of information from official sources which has not yet been released for publication, which I am therefore unable to put into the record, which clearly indicates that before he departed from this country, Balfour left with Lansing, Secretary of State, a statement which he had made on foreign policy to the British Imperial War Council. This statement referred at length to the terms of peace to which Britain was committed and the secret treaties.

The Lansing date book contains this entry for May 6, 1917 [reading]:

> At Gunston Hall. Mr. Balfour and Sir Eric Drummond motored down for midday dinner. Spent 3 hours in afternoon going over nearly every phase of the international situation, such as Austria, Bulgaria, Russia, Turkey, China, the relations with the Allies, etc.

The CHAIRMAN. Senator Clark, the Committee, of course, does have, and has had, access to this particular communication to which you have referred. It seems to me that for the sake of the record it ought to be noted here that by reason of that the Committee is informed by the highest possible sources that Secretary Lansing and President Wilson were fully apprised by Balfour of the secret treaties, to which Great Britain had been committed, and the record that has been made and is yet to be made will all clearly reveal that both the President and Secretary Lansing falsified concerning this matter, and declared upon occasion that they had no knowledge prior to their visit to the Peace Conference in Paris.

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[1] Ibid, pp. 44, 45, 48. 49.

[2] *Chapters of Autobiography,* p. 239.

Senator CLARK. I am not familiar with any statements like that, Mr. Chairman, that the President or Secretary Lansing ever stated that they had no knowledge prior to that time. It is perfectly apparent from the evidence which has been presented in the record, both from Colonel House, from Secretary Lansing's memoirs, from Lloyd George's utterances, and from Balfour's utterances, that the President and Secretary Lansing and Colonel House did have knowledge immediately after we entered the war, of these secret treaties.

I have inserted this in the record for the purpose of showing that, no matter what might have been the aims of the United States toward bringing about a peace which would eliminate the possibility of future war, that after you are once committed to a war, after your feet are once set on that path, that you are committed; that any nation is necessarily committed simply to the winning of the war and, if necessary, the maintaining of the status quo at the time they entered the war; and the fact that President Wilson, Secretary Lansing, and Colonel House were informed of these secret treaties after we entered the war did not in any manner change the fact that we had to go ahead with the war, and that later at the peace conference these secret treaties turned up to frustrate and destroy the aims which President Wilson had set up as the goal of the peace treaty.

The CHAIRMAN. Yes; but these aims were in conflict with knowledge which he had at the inception of the war.

Senator CLARK. It was after we had gotten into the war, of course, when these treaties were disclosed.

As David Lloyd George has pointed out, President Wilson did not want to be informed in writing of the details of the secret treaties, because then he would not have to be aware of their existence. That is precisely what the President said at the hearing on the Treaty of Versailles before the Senate Foreign Relations Committee—that he knew nothing about them until after the war, when he went to Paris. I quote from the hearings[1] [reading]:

> Senator BORAH. * * * When did the secret treaties between Great Britain, France, and the other nations of Europe with reference to certain adjustments in Europe first come to your knowledge? Was that after you had reached Paris also?
>
> The PRESIDENT. Yes; the whole series of understandings were disclosed to me for the first time then.
>
> Senator BORAH. Then we had no knowledge of these secret treaties, so far as our Government was concerned, until you reached Paris?
>
> The PRESIDENT. Not unless there was information at the State Department of which I knew nothing.
>
> * * * * * * *
>
> Senator JOHNSON of California. I think you answered to Senator Borah the question I am about to ask, so pardon me if it is repetitive. It is this: Was the United States Government officially informed, at any time between the rupture of diplomatic relations with Germany and the signing of the armistice, of agreements made by the Allied Governments in regard to the settlement of the war?
>
> The PRESIDENT. No; not so far as I know.
>
> Senator JOHNSON of California. So far as you are aware, was it unofficially informed during that period?
>
> The PRESIDENT. I would be more clear in my answer, Senator, if I knew just what you were referring to.

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[1] See *Treaty of Peace with Germany*, Report of the Conference between Members of the Senate Committee on Foreign Relations and the President of the United States, August 19, 1919, Senate Document 76, 66th Congress, 1st session, p. 22.

Senator JOHNSON of California. I am referring to the so-called secret treaties which disposed of territory among the belligerents.

The PRESIDENT. You mean like the Treaty of London?

Senator JOHNSON of California. Yes; like the London pact.

The PRESIDENT. No; no, sir.

Senator JOHNSON of California. These specific treaties, then—the Treaty of London, on the basis of which Italy entered the war; the agreement with Rumania, in August 1916; the various agreements in respect to Asia Minor, and the agreements consummated in the winter of 1917 between France and Russia relative to the frontiers of Germany, and particularly in relation to the Saar Valley and the left bank of the Rhine—none of these did we (and when I say "we" I mean you, Mr. President) have any knowledge of prior to the conference at Paris?

The PRESIDENT. No, sir. I can confidently answer that "no" in regard to myself.[1]

Secretary Lansing appeared before the committee and I will read a portion of the testimony of that hearing [reading]:

Senator JOHNSON of California. Let me ask you one more question while we are on the subject. You recall that Mr. Balfour was here and addressed the Senate at one time?

Secretary LANSING. Yes.

Senator JOHNSON of California. And that Viviani was here and addressed the Senate?

Secretary LANSING. Yes.

Senator JOHNSON of California. Did either of these gentlemen while here communicate to you any secret treaties that had been executed for the disposition of territory after the war?

Secretary LANSING. Neither of them.

Senator JOHNSON of California. Did either of them on any occasion, either when here or at any other time, communicate to the State Department of the United States any information concerning the treaties that disposed of territory in which the Allies were concerned, the disposition of which was to be made by the peace conference?

Secretary LANSING. None.[2]

On July 21, 1917, after we had become involved in the war, associated with the Allies, and were very busily engaged in supplying them with money and supplies and shipping, President Wilson wrote a most revealing and significant letter to Colonel House, in which he outlined certain matters, and I will offer the whole letter for the record, being committee exhibit 48.

(The document referred to was marked "Exhibit No. 2554" and appears in full in the text.)

Senator CLARK. That letter from the House Collection, custody of Prof. Charles Seymour, Yale University, New Haven, Conn., reads in full as follows:

MY DEAR HOUSE: Frankly, I see some very grave possibilities of danger in your plans for an interchange of views about peace between the World and the Tageblatt, particularly if Northcliffe and Tardieu are to be made counselors in the matter. England and France have not the same views with regard to peace that we have by any means. When the war is over we can force them to our way of thinking, because by that time they will, among other things, be financially in our hands: But we cannot force them now, and any attempt to speak for them or to our common mind would bring on disagreements which would inevitably come to the surface in public and rob the whole thing of its effect. I saw all this too plainly in the conversation with Viviani. If there is to be an interchange of views at all, it ought to be between us and the liberals in Germany, with no one else brought in. Even at that, how is the State Department, or any official agency of the Government, going to ask that the Tageblatt be allowed to print what the World says without any interference by the censor without its appearing that what is proposed is really an interchange of views between German liberals and this Government? I do not think it possible to keep the hands of the administration concealed.

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[1] Ibid, pp. 28 and 29.

[2] Hearings, Senate Foreign Relations Committee, 66th Cong., 1st sess., p. 221.

It seems to me that these are very real difficulties and disclose some real dangers. Our real peace terms—those upon which we shall undoubtedly insist, are not now acceptable to either France or Italy (leaving Great Britain for the moment out of consideration).

I have delayed writing you about this deeply important matter until I could think it out; and I must say that I have not been able to think myself on safe ground regarding it. You may have entirely satisfactory replies to make to my objections; but I cannot think of them myself. Will you not write me again? I have thought about it enough now, I think, to promise a prompt reply.

I am writing on the Mayflower, on which Mrs. Wilson and I are seeking a day or two of relief from the madness of Washington. A point is reached now and again when I must escape for a little.

With affectionate messages from us all,

Your grateful friend,

Unfortunately the President never seemed to be able to use this financial club, to which he referred, to insist upon the real peace aims of the United States. At the peace conference, with a very few minor exceptions, the Allies did precisely as they pleased and as they had planned before our entry into the war. And as Norman Davis rather bitterly stated in a memorandum for the President on February 21, 1920 [reading]:

> * * * While the Allies have never bluntly so stated, their policy seems to be to make Germany indemnify them for having started the war and to make us indemnify them for not having entered the war sooner.

That concludes the study, Mr. Chairman.

The CHAIRMAN. At this point, and to make complete the record, the Chair asks to be received in the record, properly identified, certain exhibits. First is a telegram of August 5, 1914, from the Ambassador in Great Britain, Mr. Page, to the Secretary of State.

(The document referred to was marked "Exhibit No. 2555" and is included in the appendix on p. 8690.)

The Chair next offers for the record a communication dated April 20, 1916, by the Vice Consul at London to the Secretary of State.

(The document referred to was marked "Exhibit No. 2556" and is included in the appendix on p. 8690.)

The Chair next offers for the record a communication dated September 15, 1914, by the German Ambassador to the Counselor for the Department of State.

(The document referred to was marked "Exhibit No. 2557" and is included in the appendix on p. 8694.)

The Chair next offers for the record a communication dated September 16, 1914, by the Counselor for the Department of State to the German Ambassador.

(The document referred to was marked "Exhibit No. 2558" and is included in the appendix on p. 8694.)

The Chair next offers for the record a communication by the Ambassador in Austria-Hungary, Mr. Penfield, to the Secretary of State, dated July 2, 1915, together with the enclosure which accompanied that communication.

(The document referred to was marked "Exhibit No. 2559" and is included in the appendix on p. 8694.)

The Chair next offers for the record a communication dated August 12, 1915, by the Secretary of State to our Ambassador in Austria-Hungary:

(The document referred to was marked "Exhibit No. 2560" and is included in the appendix on p. 8697.)

The Chair next offers for the record a table revealing the United States foreign commerce through the years 1912 to 1916, revealing merchandise exported and imported during those years.

(The document referred to was marked "Exhibit No. 2561" and is included in the appendix on p. 8700.)

The Chair next offers for the record a telegram dated Berlin on February 14, 1915, sent by our Ambassador in Germany to the Secretary of State.

(The document referred to was marked "Exhibit No. 2562" and is included in the appendix on p. 8701.)

The Chair next offers for the record a telegram of February 17, 1915, by the Ambassador to Germany to the Secretary of State.

(The document referred to was marked "Exhibit No. 2563" and is included in the appendix on p. 8702.)

The Chairman. The Chair next offers for the record a communication of June 1, 1915, from the Ambassador in Germany to the Secretary of State.

(The document referred to was marked "Exhibit No. 2564" and is included in the appendix on p. 8702.)

The Chair next offers for the record a communication dated May 10, 1915, addressed to the President at the White House by the Secretary of State, enclosing a memorandum by the Counselor for the State Department.

(The document referred to was marked "Exhibit No. 2565" and is included in the appendix on p. 8703.)

The Chair next offers a communication of May 11, 1915, by the President to the Secretary of State.

(The document referred to was marked "Exhibit No. 2566" and is included in the appendix on p. 8704.)

The Chair next offers for the record a memorandum dated July 2, 1915, and addressed to the Secretary of State by the President.

(The document referred to was marked "Exhibit No. 2567" and is included in the appendix on p. 8704.)

The Chair next offers for the record a letter dated April 10, 1916, addressed to the Secretary of State by David R. Francis, Ambassador to Russia, with an enclosure indicated, for the attention of Mr. Lansing.

(The document referred to was marked "Exhibit No. 2568" and is included in the appendix on p. 8704.)

The Chair next offers for the record a telegram dated September 14, 1916, to the Secretary of State from Berlin, from Ambassador Egan.

(The document referred to was marked "Exhibit No. 2569" and is included in the appendix on p. 8707.)

Senator Clark, from the exhibits which you have offered and so very ably introduced, are you impressed at all by the thought that our Government during our neutrality days was striving to bring about and putting out a proposal that was not far removed from the proposal that was offered recently for peace between Ethiopia and Italy? I mean by that this: Are you impressed by reason of these records, with the thought that we were striving to bring about a peace that we knew beforehand would be acceptable to the Allies, and which we were equally confident would be turned down by the Central Powers?

Senator CLARK. It think it is perfectly apparent from the House-Grey agreement, that the arrangement was that no peace was to be proposed which was not known to be in advance entirely satisfactory to the Allies, and that if the Germans refused to accept such peace, Colonel House was committing the United States to the entry of the war on the side of the Allies.

The CHAIRMAN. It seems to the Chair that the record now is one very clearly revealing that the needs and interests of our wartime commerce were caused to parallel the changes in and the stretching of our neutrality policy; that when commerce and neutrality at anytime came in conflict during those neutrality days, our neutrality gave way always in order to open the road to a wider and wider commercial relationship.

Beyond that, it seems to the Chair that the record positively reveals that while our Government was pretending neutrality during those days, it was actually hoping for a break with Germany, inviting that sort of a break, and seems to have been in a frame of mind to welcome the break when it came.

Senator CLARK. I do not think it is justifiable to say, so far as the record shows, that the Government was hoping for a break with Germany, but it was very clearly disclosed that Colonel House, who was acting as a sort of super Secretary of State, on several occasions wanted to have a break with Germany. That is disclosed very clearly by his notes.

The CHAIRMAN. When one speaks of the Government in those days, it seems to me quite fair to include Colonel House as part and parcel of that Government.

Do you have anything more to offer, Senator?

Senator CLARK. No, sir.

The CHAIRMAN. The Committee will be in recess until 2 o'clock this afternoon.

(Thereupon, at 12:05 p. m., the Committee took a recess until 2 p. m.)

AFTER RECESS

(The hearing was resumed at 2 p. m.)

TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, AND GEORGE WHITNEY—Resumed

ALLIED FINANCING—FALL OF 1916 [1]

The CHAIRMAN. The Committee will be in order.

Mr. Raushenbush, you may proceed.

Mr. RAUSHENBUSH. Gentlemen, this afternoon we would like to secure from you some information concerning some of the complications of the financing which seemed to take place in the late fall of 1916.

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[1] See also "Exhibits Nos. 3125 through 3162 and 3192 through 3217", Hearings, Part XXX; and "Exhibits Nos. 4048 through 4065", Hearings, Part XXXII.

There are a good many things we have not been able to secure full information on from your files.

I am sure that you will be able to add to the stock of knowledge on that subject.

As we total up these various loans that had been advanced to the Allies up to December 1, 1916, in some of which you took the lead, there was a total of $1,919,098,078, and there have been some reductions on those, some of the acceptances had been retired, and we find a net as of that date of $1,784,461,683.

(The document referred to was marked "Exhibit No. 2570" and is included in the appendix on p. 8708.)

Mr. **Olds**. Was that December 1?

Mr. **Raushenbush**. We put it as December 1 at this time; yes.

If at this time or any later time you find that there is any serious divergence between these figures and yours, please feel free to check and make your comments.

Mr. **Lamont**. That includes the paying off of those 1-year French notes, Mr. Raushenbush?

Mr. **Raushenbush**. We have a total of pay-offs, including the French notes and the acceptances, of $134,000,000.

Mr. **Brown**. That is, excluding the cancelation of U. K. notes by sale of collateral.

Mr. **Raushenbush**. May one get an agreement on this proposition, that the bulk of these loans did not go over easily, they had to be supported very heavily in the market and were not by and large thoroughly passed on to the ultimate investors but stuck somewhat in the hands of the participating and distributing banks and houses?

Mr. **Lamont**. Mr. Raushenbush, you have asked us several questions there. Would you care to mention each specific operation and ask for information about that very briefly?

Mr. **Raushenbush**. If you do not accept that general proposition for practically all of them, we will have to go into the individual ones. I had hoped that you would grant that by and large that is what happened.

Mr. **Lamont**. But I do not believe that we should describe them just the way you have done. There is no doubt, as we have stated again and again, that the investors of this country were new to foreign loans and they were uninformed as to what we regarded and our associates in the business regarded as the soundness of British and French credit.

We spoke of that very particularly in connection with the Anglo-French loan, which I can say offhand was not immediately distributed to the public. It took a long time to get that distributed, and it required, as you have pointed out, some market support.

Then the other two loans that were publicly issued were the first United Kingdom loan in August 1916 and the second United Kingdom loan made in October 1916.

Both of those operations were collateraled so amply by American, neutral, and other securities that we had no great difficulty in getting them underwritten very readily by the community, and the distribution of those loans, I think, was very fair from the start.

Does that answer you at all?

Mr. **Raushenbush**. It answers it in a way, Mr. Lamont. It rather surprises me. I had thought that we might get an agreement that there was a great deal of lagging on the part of both the United Kingdom loans, the first and second.

Mr. **Lamont**. Undoubtedly the banks continued to hold very substantial holdings in both the U. K. issues; no doubt about that.

Mr. **Raushenbush**. And a great deal of purchasing was done to support the market on these bonds, was it not?

Mr. **Lamont**. The record shows just how much purchasing; I forget.

Mr. **Raushenbush**. How about the American Foreign Securities Co.?

Mr. **Lamont**. That is the French operation. That was secured by American securities, was it not? Do you recall any details about that, Mr. Whitney?

Mr. **Whitney**. I think perhaps you do not see quite eye to eye with us on your first question. Do you mean the original distribution, if the underwriters had been left with a substantial portion? Of course, we testified that the Anglo-French was largely held by the original underwriters.

Mr. **Raushenbush**. Yes.

Mr. **Whitney**. But you are now talking about a period over a year later.

Mr. **Raushenbush**. Yes.

Mr. **Whitney**. During that time I think you will find that there had been quite a substantial redistribution, what we call secondary distribution of those securities. So at the time you speak of the banks did not have any substantial amount of these bonds.

For instance, we just, for a matter of curiosity, asked as of December 16, the end of December, the National City Bank how many they had, and they had $461,000. Of course, the American Foreign Securities was out more recently, and they had $3,000,000 of those.

The second U. K., which had been put out only a month after the date you fix, they had $3,400,000 of them, which, after all, for a bank the size of the National City is relatively small.

You come down to the First National, they had $1,300,000 American Foreign Securities, and had $9,000,000 of the second U. K's.

So, if you are talking about the second U. K's a month later, I think it would be probably fair to say that the underwriters had a substantial portion, because they had not had an opportunity yet to do what we call secondary distribution.

As to the earlier loans, I think there were relatively few in the hands of the original underwriters.

Mr. **Raushenbush**. Outside of the Anglo-French?

Mr. **Whitney**. No; I think the Anglo-French is shown by the National City Bank, which I think had a $25,000,000 participation and had $461,000 left.

Mr. **Raushenbush**. You think a year later that was pretty well passed out?

Mr. **Whitney**. On a secondary distribution. I could not speak by the book, but I think that is true.

Mr. **Raushenbush**. How about the munitions people who had taken some of that Anglo-French, do you know whether they had passed that on?

Mr. **Whitney**. I do not know. If you probably have in mind the cable we sent on January 5, I think it was, 1917, we were talking about the third U. K.'s in that cable. We were calling attention to the fact that the banks had had a rather unhappy experience in some of these former loans, and also the munitions makers had subscribed to them and that there was no longer an opportunity to sell any more bonds to the munitions holders.

We say in that cable, if I recollect, that they either held them at below cost or sold them at a loss. That was the type of argument. We had to change the type of bond for the third U. K. I could not tell you how many they had.

Mr. RAUSHENBUSH. We seem to find this story running along through most of these loans. We do not want to go into too much detail on that. Here is this cable of August 2 to Morgan in London, describing the offering of American Foreign Securities Co., for instance, in which you say toward the end of the first page [reading from "Exhibit No. 2571"]:

> We regarded this note as very attractive and hoped we were offering it on a basis which would show not only the underwriters but the purchaser a nice and immediate profit. In this we have been somewhat mistaken although on the whole we regard the undertaking as successful. For your confidential information we and Brown Bros. & Co., New York, have already bought in the market about $9,000,000 of the notes at the issue price.

Mr. WHITNEY. That was a month later.

Mr. RAUSHENBUSH. Yes. A week later, was it not?

Mr. BROWN. August 1 was the date of the loan.

Mr. WHITNEY. They came out in July, did they not?

Mr. BROWN. August 1, I think, Mr. Whitney, July 31 and August 1.

Mr. WHITNEY. It was right after.

You must remember, and we have all to remember, that we were more or less plowing a new field here with these securities, and this was an attempt to use the corporation—you know all the details of it—which, in itself, loaned money to the French Government and then in turn borrowed from the American public.

We had hoped and expected that that would be approved by the investor. We found through that experiment—and that is the only time we did that—that it did not go, as we say in the cable, as well as we had hoped, that the investors generally in the country preferred the direct obligation of the Government.

That was a disappointment, because we had believed and our associates had believed it was to be a great success.

Mr. RAUSHENBUSH. This was under the head of supporting the market. Here on the second day you have already supported it to the extent of $9,000,000. That was the point I was bringing out.

Mr. WHITNEY. That is true.

Mr. RAUSHENBUSH. The next sentence is [reading from "Exhibit No. 2571"]:

> Otherwise the price would have broken and the market become somewhat demoralized.

That is the way it operates, is it not?

Mr. LAMONT. That is your conclusion and I do not want to dispute you at all. We found it wise or expedient to support the market, but we do not necessarily go far enough than to say if we had not, the market would have broken and become demoralized. We think that is very far.

Mr. Whitney says that we did say that. I withdraw that.

Mr. Whitney. Read the next sentence.

Mr. Raushenbush. That runs to all these loans, does it not, Mr. Lamont? If exchange had been unsupported and if these loans had been unsupported, if you had not gone into the market and bought up immediately big blocks of them to keep the price up, the loan would have fallen from a par of 96, if you will, or 98, down under 80, and the bank examiners would have come around and said to you and every other bank, " Here, carry this loan at 80 "; and the financial situation from your angle would have been terribly upset, would it not? You really had to keep that price up?

Mr. Whitney. Mr. Raushenbush, I am sure you do not want me to bore the committee by going into a dissertation on the technique of the bond business, but the fact is that in every bond issue, these and all others, what is necessary is known as secondary distribution.

The record shows over any issue you want to take, that there is about a 10 to 15 percent lag in the original subscription which has to be taken up by further distribution. That is about what happened here, as you will see if you read the next sentence:

> We are still buying but hope to turn the corner within a day or two.

Mr. Raushenbush. Yes.

Mr. Whitney. The purpose was there to give a chance to absorb the usual and expected resale by people who were original subscribers and for some reason or another did not want to keep them. It is a perfectly normal secondary market, about 10 to 15 percent of the issue. This was a rate a little bit faster than that, I agree, but that was the purpose of it.

Mr. Raushenbush. If you would grant what seems to me fairly obvious, and what you have half granted, that practically all of these loans had to be supported by reasonably big purchases in the market to keep the price up, we would not have to have your dissertation on the bond business.

Mr. Whitney. I would not, because I could not grant that, you see. What I maintain is that that purchasing was to permit of an orderly secondary distribution of these securities, which is normal to any bond transaction, then and now.

Mr. Raushenbush. You mean, every one that is floated now is supported by the issuing banks?

Mr. Whitney. Not necessarily supported, because sometimes they go up. In a market like today they generally go above the issue price. But there is still a secondary distribution, which anybody in the bond business will recognize as necessary at times.

It may be an advancing price; but bonds come back and are dislodged, and that is a perfectly ordinary technique of the business.

Mr. Raushenbush. To keep the price up?

Mr. Whitney. Here is a falling market, or a market that has been filled fairly full for the present demand, of course, that is a more urgent problem than it would be on a bond that advances.

Of course, you do not support it if it goes up, obviously.

Mr. Lamont. Of course, in a policy of affording a fair degree of support to bond issues like that, we had splendid company later on. That was the United States Government; because, as we all know, when the Liberty loans were brought out in 1917 or 1918, the United States Government, under a special piece of legislation that was passed giving the authority, supported those bonds very vigorously.

Mr. **Raushenbush.** They used some of the proceeds of the bonds to support the price; is that what you mean?

Mr. **Lamont.** I do not know what particular sources.

Mr. **Raushenbush.** You also had the Bank of England in on some of these to help you support them, did you not?

Mr. **Lamont.** The Bank of England were underwriters but they were released, were they not?

Mr. **Whitney.** In every instance. We had an agreement to have them join with us, if necessary, but in each case they were released. In no case did they join in.

Mr. **Raushenbush.** Was there not one case when you passed out about $19,000,000 to them to join in a $38,000,000 purchase?

Mr. **Whitney.** Not of underwriting.

Mr. **Raushenbush.** I want to offer the cable of August 2.

(The document referred to was marked "Exhibit No. 2571", and is included in the appendix on p. 8708.)

Mr. **Lamont.** Even today, Mr. Raushenbush, you know every time the Treasury brings out a new issue here of obligations, if it is found expedient, they ask the Federal Reserve banks to afford a fair degree of market support. That is a matter of common knowledge.

Senator **Vandenberg.** Is that one of the uses to which our $2,000,000,000 stabilization fund is being put?

Mr. **Lamont.** That I do not know, Senator.

Senator **Vandenberg.** Would you suspect that was one of the services?

Mr. **Lamont.** I have not the remotest idea.

Mr. **Whitney.** It has been suggested.

Mr. **Raushenbush.** Just to finish with this American Foreign Securities, there is a letter, or, rather, a cable I want to enter, dated August 8, to Morgan, Harjes & Co., in Paris.

(The document referred to was marked "Exhibit No. 2572", and is included in the appendix on p. 8710.)

Mr. **Raushenbush.** In that there is one sentence I want to read [reading]:

> We with the Browns have thus far been obliged to purchase in excess of $10,000,000 of the notes recently issued in order to protect the market and save the credit of the undertaking.

Coming to these U. K. loans, about which you were talking a moment ago, Mr. Lamont, on January 5, 1917, there is a cable from you to London, no. 35165,[1] in which this general proposition I was offering, that these notes had to be forced around a bit, is touched upon.

You are discussing, apparently, some suggestions for new loans, and make some comments on the old, beginning in the middle of the second paragraph [reading from "Exhibit No. 2665"]:

> The reason why we deem it essential for the success of the proposed issue to offer a conversion privilege that has decided advantage over outstanding issues is this: Banking institutions are still such large holders of United Kingdom Loan No. 2 that owing to various limitations, with which you are

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[1] Entered later as "Exhibit No. 2665", see appendix, p. 8801.

familiar, it will be impossible to count upon them for subscriptions anything like so heavy in the proposed loan as before. Likewise, we cannot look to the munition manufacturers for heavy subscriptions as heretofore. In all the issues until now, we have pressed them vigorously and most of them still have on hand the notes of former issues which they have been unable to liquidate at cost. In fact, we believe it is not too much to say that the only munition makers who have liquidated their interests have been those who have been willing to do so at a loss. All of them who have not heretofore taken their loss, are still carrying notes at figures far below cost.

Does not that throw some light on the proposition that these loans were not always the best things in the world?

Mr. WHITNEY. That was the cable I referred to a few minutes ago. I am glad you brought it up, because it brings up what I had forgotten, speaking from memory, that the only United Kingdom loan of which the banks were large holders, according to our statement at that time, was the second United Kingdom loan.

As far as the munitions goes, I could not tell you how many they still had, but we testified the other day, I think, that the contract companies had something like $89,000,000 of the Anglo-French.

As you pointed out the other day, the Anglo-French never sold at anything but a loss, so if they liquidated them, they obviously would have taken a loss.

Mr. RAUSHENBUSH. Did they not have some of this United Kingdom stuff, too?

Mr. WHITNEY. The munitions makers?

Mr. RAUSHENBUSH. You say, "In all the issues till now, we have pressed them vigorously and most of them still have on hand the notes of former issues which they have been unable to liquidate at cost."

Mr. WHITNEY. We can check that. I would not dare speak from memory on that.

Mr. RAUSHENBUSH. We seem to get from the plural here that they have been forced to take some.

Mr. WHITNEY. That is a statement of fact. We are not quarreling with this statement here at all.

Mr. RAUSHENBUSH. Then, later on in the cable, I call attention to further language along the same line, that [reading from "Exhibit No. 2665"]:

They iterate again the unfavorable features of the situation, namely, the discount at which all Allied loans are selling, the fact that friendly banking institutions are so loaded up with United Kingdom No. 2 as to make their fresh participation to a large extent very doubtful, and, further, the banking community has been disturbed by a reiteration from Washington of the position of the Federal Reserve Board.

Mr. LAMONT. It is possible, Mr. Raushenbush, that in a few words we could give the committee a little of the background during this whole period that you are alluding to, so that the allusion which you are very broadly making to the various cables will be confined clearly, they will not be quite so scattered.

Mr. RAUSHENBUSH. With relation to the specific point of the question I asked there about the general stickiness, as I described it, of some of these loans?

Mr. LAMONT. Yes; that would come in, Mr. Raushenbush, because I would remind you that this whole period from September 1, 1916, to April 1, 1917, was a period when Great Britain's shipments of

American purchases, and France's too, were at the very peak. They were growing heavier and heavier. That meant that in turn the payments for meeting those shipments must become heavier.

These cables very clearly point out that we were constantly concerned with the question of exchange, and we were crowding the British Government very hard during all that period, as the cables show, to give us a clearer idea of their mobilizable resources.

We knew that they were ample, but we did not know what they were. We saw that these payments were coming along and we were pressing them—we pressed them, perhaps, unduly hard at times—to find out the information.

It was that situation that naturally led to our issuing the second U. K. loan in October, perhaps a little earlier than we had expected. There was a third U. K. loan in January, to which you have alluded. Then there was, of course, the demand loan.

Mr. Morgan was in London at the time and he furnished us with additional information. The British gradually disclosed their hand to us, that is, gradually showed us that they were in a position to ship several hundred million dollars' worth of gold.

Mr. RAUSHENBUSH. From when to when?

Mr. LAMONT. Between October 1 and the succeeding April 1, and any amount of quantities, hundreds of millions of dollars of American securities.

Then, when along came the ruling of the Federal Reserve Board in late November of 1917 against our issuance, in effect, of British and French Treasury bills, we were a good deal concerned about that, although we had not anticipated that it would amount to so much in dollars and cents, but we thought it was another means of financing.

The British Government, on the other hand, showed very little concern because, as you will recall, the Chancellor of the Exchequer, in one of these cables, at once sent word—

> I will not for a moment dream of suggesting any course not agreeable to your Government. I will ship six or seven hundred million dollars in gold at once.

Mr. RAUSHENBUSH. Let me interrupt just a minute. When you say you do not think it would have meant very much in dollars and cents, that does not seem to check with my memory on the thing in several particulars.

When Mr. Davison went to the Federal Reserve Board and talked it over with them before they issued that ruling, he is quoted as saying, "Oh, I think it would mean half a billion or a billion."

And in the cables discussing back and forth, you mentioned a figure of $300,000,000. That is not meaning nothing in dollars and cents.

Mr. LAMONT. Oh, $300,000,000 would be very far from meaning nothing; there is no doubt about that. But I do not think, according to my recollection, Mr. Raushenbush, that we really had any adequate idea that they would reach anything like that figure.

Then to complete the picture, the British Government kept producing more and more of these available resources. They put their fresh legislation into effect, as you know, requiring the further mobilization of American securities from all their people. They began to ship those over. Then, to wind up with, at the end of December 1916 they had over $700,000,000 of available securities, the greater part of which were not at all utilized.

There was a call loan——

Mr. **Raushenbush.** We would be glad to go into those figures later on when we come into them seriatim, instead of taking them in big chunks like that.

Mr. **Lamont.** Then, at the very end, before we got into the war, there were mobilized several hundred million dollars of Canadian Government and Canadian Pacific securities that were never used at that time at all.

Mr. **Raushenbush.** There were a great many statements you have been making in the last few minutes, Mr. Lamont, that I will not say surprise me but that I would like to go into in some detail, each one at a time, as we try to get this developed perhaps a little more slowly.

You know, you have taken in a great deal of territory. You have taken in a world of excitement, as it were.

Mr. **Lamont.** I was trying to give you a very brief picture of the whole period from September 1, 1916, to April 1, 1917, so as to show you why there was need of financing and the methods that were employed.

Mr. **Raushenbush.** We are not only interested in why the needs of financing. Anybody would grant that, that the British wanted money and needed money as long as the war went on. That is not what we are particularly interested in this afternoon, so much as the question of this mechanism, and what effect the various brakes on it, if you will, had or did not have.

Mr. **Whitney.** You asked me a question a minute ago about the subscriptions of the munitions people to the loans.

Mr. **Raushenbush.** Yes.

Mr. **Whitney.** Here is a statement that shows 9.9 millions in the first and 14.5 millions in the second U. K.'s.

Mr. **Raushenbush.** Does that add up the French and all?

Mr. **Whitney.** No; just the two U. K.'s.

Mr. **Raushenbush.** This is all they had at any time?

Mr. **Whitney.** That is the list that was given to me. I asked for the subscribers.

Mr. **Raushenbush.** We have some figures. We will check them and then enter them.

In a cable dated January 6, 1917,[1] you refer to the second U. K. loan, saying in the course of discussing it:

> But for the moral effect it will be essential to pay off all participants thus leaving us in a position still carrying a larger amount of call loans. We, ourselves, also have on hand approximately $15,000,000 United Kingdom loan no. 2 which, of course, shows a loss.

That is some months after the second U. K. came out, was it not, that you were still hanging on to the $15,000,000?

Mr. **Whitney.** Yes. If you will remember, we made a subscription of $27,000,000, and something, and we had $15,000,000 left. This is 2 months later.

Mr. **Raushenbush.** I want to offer for the record a compilation we have made from your records showing the collateral sales and purchases on the first, second, and third U. K. loans, up to March

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[1] Entered later as "Exhibit No. 2666", see appendix, p. 8802.

31, 1917, and showing, that on those loans you sold $110,868,857 worth of collateral, and purchased notes to the extent of $102 504,254.

(The document referred to was marked "Exhibit No. 2573" and is included in the appendix on p. 8710.)

Mr. **Whitney**. The rest of the cash would be with the trustee, of course.

Mr. **Raushenbush**. Yes. The excess of collateral sales would go to the trustee, of course.

Mr. **Brown**. The only question was the amount of market support, practically one-eighth of the three issues being bought in to maintain the price.

Mr. **Whitney**. That was in the terms of the indenture in each case, was it not, Mr. Brown?

Mr. **Brown**. Oh, yes.

Mr. **Whitney**. It was definitely advertised that certain securities were going to be sold with the idea of purchasing the notes. That was disclosed and announced, and one of the greatest points we had in them.

Mr. **Raushenbush**. One of the little parts was the mechanism we have touched on as to getting the loans floated and this big machinery started going was the campaign of education—sometimes you indiscreetly referred to them as "propaganda", I believe, in your cables—with the people around the country who were not in the custom of buying this stuff. I wanted to ask a question not of morals but simply a question of mechanism.

When you do something like that, when you tell the banks and they tell their distributors, their surrounding satellites there, that an issue is coming out and it is being floated by Morgan's, does that impress the issue with a little higher character, in your opinion, than if they were floated by X, Y, Z, a house on the Curb?

Mr. **Lamont**. We hope that it does. We do not want to appear too modest or immodest on that point.

Mr. **Raushenbush**. Can you not give me a little better answer?

Mr. **Whitney**. Of course, we do.

Mr. **Raushenbush**. That you were willing to stand by them, that they were good stuff?

Mr. **Whitney**. Certainly. When we offer a loan over our own name, it means that we endorse the statements made about it; we endorse the loan. We show our belief in it. Of course, it carries more weight than a Curb broker.

Mr. **Raushenbush**. And that weight might even be stronger in your minds, might it not—perhaps I had better ask Mr. Morgan about this; perhaps he will feel strongly about it:

Would not the weight be stronger in your minds in the case of something new like these things, where the country had not been accustomed to buying foreign bonds, as we have had testified to here, and they were being floated now and the name of the House of Morgan was on it, and somebody had to take the responsibility of telling all these little country bankers and little people that this was good, would you not feel stronger about that than if you were just selling to the Trio or somebody on the Street who was supposed to have cut his eye teeth and know what was what?

Mr. **Morgan**. We try to be careful at all times.

Mr. **Raushenbush**. But a little more careful?

Mr. **Morgan**. I do not know that we should feel any greater obligation to the little man than the big man.

Mr. **Raushenbush**. The point I was making was not so much on the little fellow but on the new man. This was all a new mechanism.

Mr. **Morgan**. We always hope that it would be an entering wedge for him, that he would become an old man as distinguished from a new man.

Mr. **Raushenbush**. I do not seem to make my question clear.

Mr. **Morgan**. I do not see that that increases our responsibility in any way.

Mr. **Lamont**. If you mean that we always feel a very keen sense of responsibility, certainly, as Mr. Whitney has just said, we did.

Mr. **Morgan**. Certainly we did.

But I do not think that that sense of responsibility is increased at all, the fact that it is offered to a lot of people who are not used to it yet. I should not think so.

Mr. **Whitney**. It cannot be increased because it is a 100-percent endorsement in any case.

Mr. **Raushenbush**. The philosophical question that anything is larger than 100 percent is one of those it is always well to stay out of. All I was trying to get clear to myself was that here we were getting into a mass of financing being taken by new people, and some of it was sticking, apparently, with the banks, and some with the secondary distributing houses, and it was constantly growing. I simply wanted, as part of the mechanism, to fix the endorsement of this. On one of these, I think it was the second U. K., your cable to London dated October 25, 1916, in which the House puts out a statement concerning the second U. K., you say [reading from "Exhibit No. 2574"]:

> We are isuing to press tonight general announcement as follows:
> "A new British Government loan offering had not been in contemplation at the present time, but the prevailing ease of money and the difficulty which the banks are having in profitably employing their funds have led us to indicate to the British Government that the present is a favorable time for it to establish additional credits in America, even though such credits may not be immediately required. Accordingly, the British Government has today accepted the views of the American bankers and has authorized them to proceed."

On the second page you say [continuing reading]:

> Advance applications for participation in the syndicate which will underwrite the issue indicate that it will be oversubscribed. The British Treasury has of late renewed its shipments of gold to this country upon a large scale. This continued influx of the metal has caused some concern in the banking community and it is believed that the issuance of the proposed loan will tend to cause at least a temporary cessation in gold imports.

(The document referred to was marked "Exhibit No. 2574" and is included in the appendix on p. 8711.)

Mr. **Raushenbush**. Does that check with your other cables and cross-correspondence, that present statement on the thing?

For instance—

> a new British loan offering had not been in contemplation at the present time.

Had it not been contemplated before then?

Mr. **Lamont**. It had been on our minds right straight along after the first, but not for such an early issue, I think, Mr. Raushenbush.

You remember that the conditions changed almost overnight at that time.

Mr. **Raushenbush**. In answer to that we find this cable of August 21, 1916, that comes from Morgan in London. August 21 is some time before.

(The document referred to was marked "Exhibit No. 2575" and is included in the appendix on p. 8711.)

Mr. **Raushenbush** (reading):

> Referring to latter part of your cable 25120, we should expect if the present loan satisfactory that we should ask you issue further similar amount November—

And so forth.

Apparently they were contemplating one for November, were they not?

Mr. **Lamont**. Oh, contemplating, yes; but this cable is to the general sense of an immediate loan offering, a loan offering so early.

Mr. **Raushenbush**. Now, about the next part of it [reading from "Exhibit No. 2574"]:

> The prevailing ease of money.

Was money easy there in October?

Mr. **Lamont**. Money changes overnight, almost. That is my recollection.

Mr. **Raushenbush**. I had a memory from the rifle situation we discussed the other day that October was one of the times when things were getting pretty tight [continuing reading from "Exhibit No. 2574"]:

> The difficulty which the banks are having in profitably employing their funds has led us to indicate to the British Government that the present is a favorable time for it to establish additional credits in America, even though such credits may not be immediately required.

Did not the British need them right away?

Mr. **Lamont**. They needed funds right away, but they were constantly shipping gold and were constantly shipping American securities for sale on our market, so that there was no exact knowledge in our minds as to just what and when they would need. It was during all the time we were trying to find out from the British a more exact situation of their resources and requirements.

Mr. **Brown**. Mr. Lamont, half of that credit was applied on the demand loan, was it not?

Mr. **Lamont**. I do not recall, but you have the facts.

Mr. **Brown**. The data furnished by J. P. Morgan & Co. show the credit on demand loan no. 1 on November 10 of $57,284,995, and on the same date on demand loan no. 2, $116,407,444.

Mr. **Whitney**. They had $114,000,000 after paying off the demand loan, roughly.

Mr. **Brown**. That would be a total of approximately $170,000,000; more than half the loan was, so to speak, already earmarked by money already advanced?

Mr. **Lamont**. It was earmarked if we thought it was wise to reduce the demand loan.

Mr. **Brown**. Did you not always feel it was wise to reduce the demand loan?

Mr. **Lamont**. That always depended, Mr. Brown, upon the circumstances prevailing at the time. We aimed, as you know, and as the whole record shows, to pay down the demand loan when the resources that were available were not being immediately utilized.

When they were not, they served as a stop-gap until a further offering was ready.

Mr. **Whitney**. Mr. Raushenbush, you asked about call money.

Mr. **Raushenbush**. Yes.

Mr. **Whitney**. Reading from the Federal Reserve Bulletin of November 1, it said:

> Call money rates were slightly firmer in September ranging from 2 to 3 percent. Early in October call money touched 4 percent for the first time since July. It is now being quoted from 2.5 percent to 3 percent.

So it had gone up and slacked again at the end of October.

Mr. **Brown**. I would like, if I might, to take up one phase of this.

In that press statement Mr. Raushenbush just read you say [reading from "Exhibit No. 2574"]:

> Even though such credit may not be immediately required.

I should think if over half the loan were required for a loan that was on demand, it would seem a rather immediate requirement.

Mr. **Lamont**. Of course, you and I could discuss that at great length, as to whether it was a requirement or not. It was not a requirement. We did not have to pay down the demand loan. After a lapse of twenty-odd years, Mr. Brown, I cannot give you every shade of knowledge of the facts of the situation and what was in my mind at the time I dictated the cable.

Mr. **Brown**. I recall later cables—there are so many I cannot pick them all out—where both you and the British Government were rather regretful at the height to which the demand loan had had to go previous to this second U. K.

Mr. **Lamont**. We were always in a mood to reduce the demand loan when there was good reason for reducing it and when there were resources to make it reducible from.

Mr. **Raushenbush**. The reason that really got my attention was, just before that there was a cable on October 20 in which you were discussing the same thing, and you seemed to paint a picture of, if I may describe it mildly, hard times over here. It is that second paragraph.

Mr. **Whitney**. But, Mr. Raushenbush, is not this just another example of what Mr. Lamont said a little while ago, that in order to get a really clear picture of this fall of 1916 you have to look at it as a whole, because these isolated instances do not give a clear picture?

For instance, when you say that they need money, Mr. Lamont said that we knew that they had very heavy payments running over the next 4 or 5 months.

They were going to be met. It was a question of properly mobilizing their resources so you could meet them.

We knew that and they actually did make payments, as you know, within the next 6 months, amounting to about $1,200,000,000.

Mr. **Raushenbush**. Between what dates?

Mr. **Whitney**. From November 1 to March 31, I think they paid. After the second U. K., they did $250,000,000 of the third U. K.

The demand loan was $345,000,000. They shipped about $536,000,000 worth of gold. They sold about $68,000,000 worth of securities. So that we know that the money was required during that interval.

The question is whether it was immediately required, but we knew it was coming definitely right along all through that period. That is why the most of these cables, as you will remember, are forcing on the British Government authorities the theory of the necessity of their facing the future of these tremendously heavy payments over the next 4 or 5 months.

We were constantly exerting every bit of pressure we could on them for them to get themselves in hand and collect and make available the resources which we knew they had.

If you take one single bit out of it, you would throw the whole picture completely out of focus, because, after all, there is no question about the fact that in the fall of 1916, the purchasing was all heading into one thing, and it was a very large financial question.

The constant effort of J. P. Morgan & Co. during that period was to impress upon the British Government the fact that they had to realize that they had to make definite steps over that period to find available dollars to meet their commitments, or else curtail their purchases, one or the other.

The net of it is that they raised, after the second U. K., about 1,200,000,000 of dollars to meet those payments, and when they got through at that time they had roughly $650,000,000 plus $400,000,000 worth of gold available for further purchases if they had wanted them.

Mr. Raushenbush. We will get into that. The thing in which I was interested and still am interested in was this, that you were the leader in selling that enormous amount of stuff; you knew a lot nobody else knew.

These cables—this one I want to enter, of October 20, and this other one of October 16, which give what seems to be the inside picture—seem to be slightly at variance with the press release that you put out.

That seemed to me to increase still further your responsibility that these big loans would all be good, do you see? That when you told people things, they would probably give you still further the feeling that you ought to stand by them and the loans ought to be good.

Mr. Lamont. But the loans were good; they were very amply secured, Mr. Raushenbush. These loans about which you are talking now, the United Kingdom loans, were very amply secured, in our judgment.

Mr. Raushenbush. You did try some other ones that were comletely unsecured? I mean, the whole treasury bill operation was cited as an unsecured loan.

Mr. Whitney. We were not allowed to do that.

Mr. Lamont. Oh, no.

Mr. Raushenbush. We will get into that in just a minute, as to whether you were allowed.

Mr. Whitney. Well, we did not, anyway, did we?

Mr. Raushenbush. You did not; no; but it was planned and the question still stands.

Take this one of October 16, 1916, where you are pointing out to J. P. Morgan and H. P. Davison in London [reading]:

> 29065. Payments for account of two governments are mounting up so fast it is very difficult to keep pace by means of farming out no. 2 loan.
>
> Please ask authorities to make endeavor for next few days to ease up and to employ every reasonable measure to postpone somewhat their heaviest payments. Loan today is $125,500,000, of which we personally were scheduled this morning to advance $98,000,000. Any such amount, as you can see, is very close to our proper limit.

(The document referred to was marked "Exhibit No. 2576" and appears in full in the text.)

Mr. RAUSHENBUSH. Then this one of October 20, which I mentioned a moment ago, that the bankers seemed to need extra compensation.

(The document referred to was marked "Exhibit No. 2577" and is included in the appendix on p. 8712.)

Mr. RAUSHENBUSH (reading):

> We should be perfectly willing to do this were it not for the fact that the offering group outside of Trio consider that they are properly entitled to some special compensation for extraordinary services rendered and although we have not told them so, we thoroughly agree. While we look for effective work of every member of the syndicate, there is no doubt that this offering group, at least the distributing houses, eliminating Pittsburgh and Chicago banks, are the ones upon whom chief distribution work falls. We are reluctant to keep laying stress on point that only way by which Great Britain can possibly hope to meet its requirements between now and March 1 is to have every member of the banking community over here working, not only steadily but enthusiastically. There is no method of instilling this spirit except by means of profit. All these houses took a handsome loss on the Anglo-French operation and they state that after paying expenses, etc., they made little real profit in United Kingdom and Royal operations. We believe that we must compensate them out of our proposed three-fourths percent to the extent of a special one-fourth percent, if we are to carry this business through effectively.

Then in the next paragraph there is a sentence there to which I would like to call attention:

> We are making every possible sacrifice for her benefit and doing it as quietly as possible, so that the banking public generally will not become alarmed at the magnitude of her requirements.

That just seems in tone very little different than the circular that was sent out just a few days later.

Mr. WHITNEY. You said, Mr. Raushenbush, we were in possession of information as to the requirements of the British Government that was not in the possession of others.

Would you please read the last sentence of that same cable? If I may I will:

> For your information, Chancelor's remarks as to necessity of finding $10,000,000 daily for New York payments cabled over here and featured in press this morning.

That was 5 days before this statement to which you referred was publicity announced, so the public knew pretty well that the Chancellor needed quite a lot of money for quite a long time.

Mr. LAMONT. If you want to find inconsistencies in our cables from day to day, we can turn up a lot more for you than you can turn up, because, of course, we were inconsistent, so far as the record is concerned, because circumstances changed from day to day. Our own opinions changed from day to day.

Mr. **Raushenbush.** No; these cables seem to be consistent. It is that release to the public and the other bankers that seemed to us to be somewhat at variance.

What I am trying to figure out is, when you were opening up a new field with all these people who had never taken these bonds, the question of how fully informed they were got to be an important one somewhere along the line, did it not?

Mr. **Whitney.** This was not awfully new. The Anglo-French was a year or 13 months before that.

Mr. **Raushenbush.** This was preparing for the U. K., the second U. K.?

Mr. **Whitney.** The second U. K. But there had been 500 million Anglo-French in October 1915. They had been in the public markets, certainly talked about enough for a year. We had done a first U. K. in September. So you can hardly call this new. It is all right to be talking about this being new, in the Anglo-French, but this is not new. There had been the American Foreign Securities loan in July. There had been various financings.

Mr. **Raushenbush.** By this time you think the American public was pretty well accustomed to these foreign bonds?

Mr. **Whitney.** I think they had certainly heard enough about them in over a year. I do not know how accustomed they were, but they certainly had heard enough about them.

Mr. **Raushenbush.** Just one more thing about the stickiness of the securities. Here is a letter I want to offer from Fred I. Kent, of the Bankers Trust, to Mr. H. Fischer, care of Wm. P. Bonbright & Co., Inc., in Paris, dated March 15, 1916. The letter ends up [reading]:

> In all of these negotiations it must be borne in mind that the banks in this country that have taken part in the European loans have not been able to pass their participations along to individuals to any appreciable extent, and consequently it is necessary to meet the requirements of our banking law if further funds are to be secured in this country.

I offer it for the record.

(The document referred to was marked "Exhibit No. 2578" and is included in the appendix on p. 8712.)

Mr. **Raushenbush.** Then your cable of October 18, 1916, which points out that it is difficult for the British Treasury to plan to borrow on demand unlimited amounts, even against American securities, even if they put up securities, good American securities.

There is a limit somewhere. That is the only point.

(The document referred to was marked "Exhibit No. 2579" and is included in the appendix on p. 8714.)

Mr. **Whitney.** We say "in unlimited amounts."

Mr. **Raushenbush.** Yes [reading]:

> We are not finding it altogether easy to have the Treasury borrow on demand in unlimited amounts, even against American securities.

Even with good collateral, there was an end to this process somewhere.

I also offer for the record a letter from Frederic A. Delano to Governor Strong, dated December 19, 1916, again pointing out this situation as regards the banks.

(The document referred to was marked "Exhibit No. 2580" and is included in the appendix on p. 8714.)

Mr. Raushenbush (reading):

> To answer your question first, the Comptroller's report showed approximately 300 million European securities held by national banks at the latest report, not in itself an alarming showing, although it can be inferred that trust companies affiliated with national banks hold considerable more. From statements of State and national banks in September, it appears that the holdings of securities of various kinds (bonds and stocks which in the case of national banks is mostly bonds), all slow stuff, have increased from 2,800 million to over 4,000 million. The increase of 1,200 million being about equally divided. We assume that the placings of securities of belligerents and nonbelligerents have amounted to at least 2,000 million and that the selling back of American securities have been, say, 1,500 million, perhaps more, but it is reasonably sure that a good share of this 3,500 million remains "undigested" and not in the hands of the ultimate investor. That is where the danger lies. There is a great difference between my drawing my balance out of your bank and investing it in the bonds of foreign countries and your investing my balance in that way. I wish very much I could talk with you about the situation. You realize how unwilling I was to do anything that looked like a slap at the Allies. Unfortunately, Kent of the Bankers in his acceptance circular and Davison by his actions and methods rather forced the issue.

Then, toward the end of that letter, he says [reading]:

> I can see that if you had been in New York on the job you could have acted as an intermediary and held Davison in check and, at the same time, satisfied the fears of the Board. I say "fears of the Board" advisedly. There is no doubt that four or five were really alarmed, and the rapidly advancing prices of necessaries of life and the hue and cry that aroused all tended to feed the flames.

He seems to think that there is a lot of this foreign indebtedness that is kicking around quite a lot and not being digested as late as December 19.

Mr. Whitney. As far as I could hear what you read, that sounded like what he thought.

Mr. Lamont. Of course, during this whole period that you are alluding to, there was another factor in the situation that may be worth mentioning, and that was the somewhat shifting of sentiment away from favoring the Allies. That was due to the difficulties that Senator Clark and Senator Nye have pointed out so clearly, on contraband, blacklist, and that sort of thing, that our Government was having with the British Government.

So, during all this period there was quite a distinct slackening of pro-Ally public opinion for the time being.

Mr. Brown. Mr. Delano is also pointing out, Mr. Lamont, the inflationary aspects of this situation. Would you agree to that at the end about the rapidly rising prices of the necessaries of life, that the war-trade boom had become, apparently, in his mind, and in the minds of some of the others of the Reserve Board, dangerously close to a runaway inflation?

Mr. Lamont. Mr. Brown, Senator Vandenberg and I both agreed the other day that any very great boom in trade always resulted in an inflation, and that there was always a deflation.

Of course, the American community had imported during all these months a very great quantity of gold; there is no doubt about that.

We were rapidly changing, as Mr. Whitney has repeatedly pointed out, from a debtor to a creditor nation.

Mr. Brown. You would agree with Mr. Delano that it was a very critical business situation in the late fall of 1916 with a certain amount of undigested securities pretty heavily loaded on the banking system, and something that was dangerously close to a runaway inflation?

Mr. LAMONT. Oh, no; I would not have agreed that there was anything in the nature of a crisis, Mr. Brown. Perhaps Mr. Whitney has a comment on that.

Mr. WHITNEY. I do not quite understand how increase in investment account produces inflation.

Mr. BROWN. No; a combination, I said, Mr. Whitney, of a large quantity of undigested securities in the hands of the banks, plus an apparently somewhat runaway market for the prices of goods of all kinds.

Mr. WHITNEY. The second point is the only point that has to do with inflation, is it not?

Mr. BROWN. Yes; but there is this inflation plus a certain undigested banking situation.

Mr. WHITNEY. Might I just read a rather famous statement made by the Federal Reserve Board on November 27?

Mr. RAUSHENBUSH. We are going to come to that.

Mr. WHITNEY. They state here something about inflation, as to what they thought about it. I am not going to read the whole thing.

Mr. RAUSHENBUSH. We will just have to read it again if you are going to read it now.

Mr. WHITNEY. This is directly responsive to the question.

Mr. RAUSHENBUSH. Are you reading the first or the second statement, the one before the change was made in it?

Mr. WHITNEY. This is November 27.

Mr. RAUSHENBUSH. When we come to it, we want to go into it in a little more detail, because that statement, you know, was changed overnight.

Mr. WHITNEY. All we knew about it was, this was published in the public press. It just talks about their not worrying about inflation.

Mr. RAUSHENBUSH. Yes; I know they talked about that.

I want to comment on Mr. Lamont's statement that sympathy was switching a little bit.

Did not that necessitate still further propaganda, if you will, educational activities on your part, if sentiment was changing, to keep the market up?

Mr. LAMONT. We have said in cable after cable to the British Government that they misunderstood the state of public feeling over here. I think in one or two we complained because they did not understand that more fully.

Mr. RAUSHENBUSH. I want to offer these cables of September 21, 1916; October 30, 1916; press comment on Mr. Davison's newspaper statement; and congratulations from the Chancellor to Mr. Davison.

> **He is greatly impressed with skill and usefulness of your propaganda and your speeches are much commented on and approved here.**

That was in November.

(The documents referred to were marked "Exhibits Nos. 2581, 2582, 2583, and 2584", respectively, and are included in the appendix on pp. 8715 to 8718.)

Mr. **Raushenbush.** Mr. Morgan, do you remember particularly what kind of statements Mr. Davison was making at the time that you had that discussion between you and the Chancellor?

Mr. **Morgan.** I do not remember what they were. I have no doubt there are copies of them obtainable.

Mr. **Raushenbush.** We did not find them. They must be something unusual [reading from "Exhibit No. 2584"]:

> He is greatly impressed with skill and usefulness of your propaganda and your speeches are much commented on and approved here.

Mr. **Lamont.** Mr. Raushenbush, perhaps I can answer that, haltingly. I think the chief allusion there was to the statement that Mr. Davison made that appeared in the public press at the time when he returned home from England in the autumn.

Mr. **Raushenbush.** We have that one, and I introduced it a minute ago, the one of October 31, 1916 [reading from "Exhibit No. 2583"]:

> Sees Prosperity Long After War. H. P. Davison expects vast trade with Great Britain and France to continue. Favors unsecured loans. Allied nations' bonds as sure to be paid as those of our own Government.

We have entered that. That was 20 days before.

Mr. **Lamont.** Then I think he made one talk in Chicago, as I recall it. I do not recall any others he made. My people here say he made one in Boston.

Mr. **Raushenbush.** You do not remember anything particularly about that, though, do you?

Then on November 24, 1916, cable to Harjes, with the drastic comment [reading from "Exhibit No. 2585"]:

> We have, as you know, been active, in furthering propaganda as to desirability of long term unsecured loan, and believe that we have made some impression upon American investment public, but, frankly, one operation has followed another so closely as to have sated pretty completely for the moment the appetites of all classes of American investors, both institutional and private.

We do not want to have any more to do with that, but did that not amount to this, that as far as the mechanism went, you said to your Trio, your close friends and your other ones, that, "This is a good loan; you can safely hold it." That is all that meant, did it not?

Mr. **Morgan.** That is all.

(The document referred to was marked "Exhibit No. 2585" and is included in the appendix on p. 8719.)

Mr. **Raushenbush.** You kept shoving them along and saying, "You had better take a little of this and a little of that and a little of the next."

Mr. **Lamont.** We did not say "You better." We undoubtedly recommended the loan, Mr. Raushenbush, and we felt very distinctly this sense of responsibility which you have credited to us by seeing that these loans were set up so that they were amply secured so that they would be paid.

Mr. **Raushenbush.** Yes; except that occasionally you do try, as in that last cable, to arrange an unsecured loan, even at this time?

Mr. **Lamont.** No; we arranged the unsecured loan in October 1915.

Mr. **Raushenbush.** No; you tried as of this time.

Mr. **Lamont.** Oh, that was merely a suggestion. That was talk as between partners.

Mr. RAUSHENBUSH. It was thought of such importance that the Federal Reserve Board took cognizance of it, and it was not idle talk, was it?

Mr. WHITNEY. Perhaps this would sum it up pretty well, Mr. Raushenbush:

On December 1, 1916, which was just after the ruling by the Federal Reserve Board, here is one clause from a cable despatched to the Minister of Finance in care of Harjes, Paris [reading]:

> We must start afresh and do all that we can to show the public the facts as to the undoubted soundness of the Government obligations of France and Great Britain.

That is the text of what we did.

Mr. RAUSHENBUSH. That is one statement out of a lot of cables.

Mr. WHITNEY. That is all we need to do. That is what we did.

Mr. RAUSHENBUSH. We have already put in the record the other day the story of how impressed the British Treasury was with the power of a few banks and munition companies over here, when they came to the cancelation of contracts. Let me ask you this question: You remember that story, of course, and I do not want to put the cable in again, because we spent a lot of time on it——

Mr. LAMONT. Which cable?

Mr. RAUSHENBUSH. September 1916, to Morgan in London, pointing out [reading][1]:

> Effect of any action taken by British Government, which contractors believed unfair and arbitrary, would, in our judgment, be far-reaching, and might well go so far as to affect adversely and seriously further British financial operations in this country as well as to lead other manufacturers of munitions, etc., to seek to protect themselves in future negotiations by demanding higher prices and generally imposing onerous conditions.

We had a long story on that, and one to which I think you will assent, namely, as to the power of a few banks, with whom you were operating, on the British Government in that particular crisis. Is it not fair to suppose that, at this time—we are not in 1915, as I asked yesterday, but in late 1916—that at this time the combined banks and munition companies were so involved in a piece of machinery, that they had even a little influence with the United States Government?

Mr. LAMONT. I do not get the last part.

Mr. RAUSHENBUSH. I am trying to draw an analogy. We had a pretty good story, or at least I thought it was a pretty good story, that they had some influence with the British Government.

Mr. LAMONT. Who did?

Mr. RAUSHENBUSH. These few banks and munition companies, who happened to be in back of this situation, and it occurred to me that Morgans were placed in an unfortunate position in asking the British for about $30,000,000, which they had no legal right to ask, but the American banks would not be hurt and could go along with the necessary financing.

I am asking that question for information, you understand. If they had that much influence with the British Government to get them to put up $30,000,000, to which you had no right, could it not be inferred, with all this going on, that the banks and munition companies had a little influence with their own Government at the time?

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[1] Previously entered as "Exhibit No. 2098", see Hearings, Part XXV, appendix, p. 7732.

Mr. **Lamont**. Mr. Raushenbush, what possibly could they ask of our Government?

Mr. **Raushenbush**. To be left alone.

Mr. **Lamont**. To be left alone to do what?

Mr. **Raushenbush**. You see the President at that time had asked for discretionary power to put on embargoes? I think that was introduced this morning.

Mr. **Whitney**. Were the records this morning not full of that situation?

Mr. **Raushenbush**. I did not happen to be here, myself.

Mr. **Whitney**. I listened very carefully, and it seems to me they were. We had nothing to do with it.

The **Chairman**. It was very complete this morning.

Mr. **Raushenbush**. I do not think there is any harm in asking the question.

The **Chairman**. Not at all.

Mr. **Lamont**. Not at all.

Mr. **Raushenbush**. Here the President asked for approval of discretionary power on embargoes, and he did not do it, as we know. I am asking if the banks and munition companies who were doing all this business, and who got into these various situations, and had power enough to influence the British Government a little, if they would not have enough power at the time to influence the American Government?

Mr. **Lamont**. Mr. Raushenbush, I should answer that by saying that if ever President Wilson had the slightest tenderness for bankers, big industrialists or munition makers, he did not show it. That is clear enough to me.

Mr. **Raushenbush**. Wait a minute, please.

Mr. **Lamont**. All right.

Mr. **Raushenbush**. Does one have to show everything by what one says, really? I mean, you get action by not taking action, Mr. Lamont. Do you see? Take not embargoing as a definite action. Of course it was.

Mr. **Lamont**. Mr. Raushenbush, as you said the other day, you taught school at one time, and you know more about the field of psychology than I do.

Mr. **Raushenbush**. I did not say that. I taught school.

Mr. **Lamont**. You taught school, but I am crediting you with the knowledge of psychology. But, Mr. Raushenbush, the Administration of Mr. Wilson, I should assume, had a very great regard for the general prosperity of the country, and I think they had a great regard, a pretty tender regard, for the feelings of the Southern States that wanted to sell their cotton, and the Western States that wanted to sell their wheat, but when it came down to tenderness toward bankers or munition manufacturers, I have never heard of it.

Mr. **Raushenbush**. Not in his mind?

Mr. **Lamont**. He showed everything to the contrary.

Mr. **Raushenbush**. Did he at any time do anything which restricted the activities of the bankers, either with respect to loans, credits, embargoes, or shipments of munitions, at any time in his Administration?

Mr. **Whitney.** One of the most interesting of the exhibits this morning, Mr. Raushenbush——

Mr. **Raushenbush.** Are you answering my question?

Mr. **Whitney.** I am about to try to [continuing statement] was a report, if I remember rightly, that the Department of Commerce made at the request of the State Department, and in that report, if I remember correctly, pointed out that the British were increasing tremendously their munition manufacturing facilities.

Mr. **Raushenbush.** And your own cables pointed that out?

Mr. **Whitney.** And our own cables pointed that out; and that, therefor, it seemed to me that the inference was, at the final end of that report, that it was proper and expedient to assume that it had an effect upon the export trade of this country. It must have influenced more things than the munitions makers.

Senator **Clark.** All it said, Mr. Whitney, was that the Government had really allowed the opportunity to pass to use the embargo weapon on munitions with greatest effectiveness.

Mr. **Whitney.** Exactly.

Senator **Clark.** We permitted England to infringe our rights for a year and a half, without using this powerful weapon at hand, and at the time the memorandum was written, after that measure had been passed by Congress, that the weapon would not have been as effective as when Great Britain depended on us in her need for munitions.

Mr. **Whitney.** As when they depended on us for them.

Senator **Clark.** That is true.

Mr. **Raushenbush.** There is also the story of the plant developments. They had gotten the plants going in the fall of 1916.

Mr. **Whitney.** I think so.

Mr. **Lamont.** You mean their plants at home?

Mr. **Raushenbush.** I mean their plants at home, and that was an effective threat, apparently, forcing our Commerce Department to say: "Let us not fool with this. Let us not hurt our own people by embargoing".

Mr. **Whitney.** How can you call that a threat, Mr. Raushenbush?

Mr. **Raushenbush.** Our business being taken away.

Mr. **Whitney.** This was a report of our own Department of Commerce, was it not?

Mr. **Raushenbush.** The two things are similar. It runs through your cables. "You better look out, because after all they are set over there and manufacturing." And the Department of Commerce is saying the same.

Mr. **Whitney.** I would like to see one of our cables which says that.

Mr. **Raushenbush.** In that language, you mean?

Mr. **Whitney.** Or that inference.

Mr. **Raushenbush.** You put it in the record yourself. You referred to the cable and said I had not finished it and you read it in, Mr. Whitney; that the developments were expanding for industrial purposes and consequently, note should be taken of it.

That was a situation which was effective over here, but it was not effective on the bankers. It was in the fall of 1916 that they had their own industrial development going ahead, and they could have cut off some of our trade, but that did not affect the rifle situation. The bankers and the munitions people in that case did not take that into consideration but they insisted upon and got their pound of flesh.

Mr. **Whitney.** You have also failed to mention the fact that the British Government wanted the rifles.

Mr. **Raushenbush.** That is all brought out in the argument, as to whether they did or not.

Mr. **Whitney.** Of course the record shows that they did.

Mr. **Raushenbush.** I do not see that at the moment, because they could have gotten a good many rifles, which they needed, without paying that terrifically high price.

INCREASINGLY CRITICAL SITUATION OF ALLIED FINANCING [1]

Mr. **Raushenbush.** There is a little question which I have here. About December 1, do you have any figures showing what your purchasing commitments were, that is, going through you? We have a figure of $388,000,000 at that time of outstanding purchasing commitments. Just for the British, I mean.

Mr. **Whitney.** I think somewhere in those cables that there is a statement that up to March 1 it was $100,000,000 a month, which would be approximately correct. We have never tried to bring down our contracts in that way because it is so difficult to do it.

Mr. **Raushenbush.** We have worked it out from our records.

Mr. **Whitney.** That would be about the same, would it not?

Mr. **Raushenbush.** There were some French commitments. Do you have a figure on that, about what the purchasing commitments were at that time?

Mr. **Whitney.** It is about $50,000,000 a month, roughly; a little over.

Mr. **Raushenbush.** But what I am trying to get at is, how many contracts they had already, which they had not paid off? That is what I am trying to get at.

Mr. **Whitney.** On the 1st of December?

Mr. **Raushenbush.** About the 1st of December.

Mr. **Whitney.** I can tell you what the payments were over the next 6 months, if that answers it.

Mr. **Raushenbush.** Have you got the totals?

Mr. **Whitney.** I have got the British and French. Do you want them read?

Mr. **Raushenbush.** Yes, sir.

Mr. **Whitney.** Up through May 1917 $705,000,000 paid for the British, being approximate figures, and $459,000,000 for the French.

Mr. **Raushenbush.** Those were payments?

Mr. **Whitney.** Those were for the next 6 months.

Mr. **Raushenbush.** A great many of the British requirements did not come through you at all, such as wheat, cotton, and so forth?

Mr. **Whitney.** The payments did but not the contracts.

Mr. **Raushenbush.** Our figure of $388,000,000 would not include that?

Mr. **Whitney.** I think our estimates given somewhere in these cables, if my memory is correct, were about one hundred million a month.

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[1] See also "Exhibits Nos. 3192 through 3217", Hearings, Part XXX; and "Exhibits Nos. 3624 through 3637", Hearings, Part XXXI.

Here is a sentence out of a cable of December 5, despatched to Morgan in London:

> Payments under contracts closed through us are not excessive. We figure them approximately one hundred million monthly during the next 4 months.

Mr. Raushenbush. I am still asking the question, does that cover wheat, cotton, and so forth?

Mr. Whitney. No; but it says, "contracts closed through us."

Mr. Raushenbush. Could you give us any idea as to how much the British and French obligated themselves for in connection with such things as wheat, cotton, and so forth?

Mr. Whitney. I gave the total figures. Supposing it was $100,000,000 a month for the commercial agency payments. There were about $700,000,000 paid in the next 4 months, but I have not got them broken down that way because I do not know how those payments were handled actually. We estimated about $100,000,000 a month for 4 months. I should think your figures, based on the payments, were approximately correct. We have not figured it.

Mr. Raushenbush. We think they are correct, because we took them off the books.

Mr. Whitney. I do not doubt it, but I do not know.

Mr. Raushenbush. We want to see how much the British and French pledged themselves for, to see what kind of picture it was around December 1. The commitments for purchasing were $388,000,000 for the British alone, and if we add to that the French and all the other commitments, which Britain and France made for things, you would have a pretty big figure, at that time, of course, far bigger than this.

Mr. Whitney. You have forgotten one of the most important things, which I hate to bring up, namely, the question of exchange.

Mr. Raushenbush. I was coming to it, but let us get to it now.

Mr. Whitney. I think the question of what they had to do is really the pertinent question, is it not, Mr. Raushenbush?

Mr. Raushenbush. Yes.

Mr. Whitney. Rather than the contract payments, because there were sometimes delays and changes.

Mr. Raushenbush. I was trying to get at the definite commitments of purchases and the indefinite commitments of exchange. That combination is the one.

Mr. Whitney. Of course, the exchange problem was really the one which threw out the calculations which made the question difficult, because after the Federal Reserve Board ruling and other things, there was a great deal heavier pressure on exchange.

Mr. Raushenbush. Can we not get an agreement by saying that, by and large, the status of the British Treasury might be shown by the world value of the pound, which was dependent in these days on its peg in New York; that you could get a picture of the status of the British Treasury from the status of exchange?

Mr. Whitney. I do not think I understand what your question is.

Mr. Brown. By that time the full value of the pound sterling depended on the New York market, did it not? I do not say the ultimate value of it, which would be another problem, but speaking of the day-to-day value of the pound sterling in the neutral world, it depended on the New York quotation, did it not?

Mr. WHITNEY. I do not think I understand the question quite. The obvious need of the British Government was for dollars in New York. Is that what you mean?

Mr. BROWN. They also needed currency of other kinds, all over the world. They needed guilders and pesetas, and so forth?

Mr. WHITNEY. I suppose they did. You mean the merchants of Great Britain needed them?

Mr. BROWN. Yes. And the point at which sterling was supported was not in all sorts of neutral countries all over the world but on the New York market, was it not?

Mr. WHITNEY. I would not know what they did with the other currencies. There was obviously a need for dollars, but whether there was a need, such a need in the matter of their commitments to support the other currencies, I do not know.

Mr. BROWN. All the sterling bought in New York was not sterling which had been offered to American merchants in exchange for American goods, was it, Mr. Whitney?

Mr. WHITNEY. I would not know that, either. I am not trying to dodge, but frankly I do not understand what you are driving at.

Mr. BROWN. The question is whether the amounts of money spent on exchange in New York represented money spent in this country, or represented actual British commitments in other countries.

Mr. WHITNEY. You mean, cleared through the New York market?

Mr. BROWN. If Great Britain bought something in the Argentine and paid for it in sterling, the sterling was changed in New York for dollars and the Argentines sold the dollars for their own currency?

Mr. WHITNEY. It might have been, and one way or the other the purchases by Great Britain were on the American market for other markets, and if the other markets cleared through New York, obviously that would be the market, but whether they did or not I do not know.

Mr. BROWN. Except for cotton, there was not very much exported commodities being paid for in sterling in this country. The demand was to receive payment in dollars, was it not?

Mr. WHITNEY. That is correct; all payments under the contracts were in dollars.

Mr. BROWN. So that all the sterling which was being sold represented largely purchases outside the United States, did it not?

Mr. WHITNEY. Was there not any wheat being sold abroad?

Mr. BROWN. Was not that being sold for dollars direct?

Mr. WHITNEY. Cotton was being sold for dollars, so far as the planter went. It merely meant that they needed to draw sterling for the purpose of financing it, and if there was a credit, it would be the same theory again.

Mr. BROWN. There was no way of arriving at an exact figure, but the great mass of sterling which was bought, a great deal of it was for purchasing in the neutral world other than the United States?

Mr. WHITNEY. I do not get it.

Mr. MORGAN. Sterling being bought, you say. What classes of sterling were being bought? There was an immense amount of sterling being sold.

Mr. BROWN. Demand loan no. 1 was entirely used to buy sterling. The British Government was buying what somebody else was selling.

Mr. MORGAN. The British Government drew on us when they wanted the dollars. We did not know what they did with them.

Mr. BROWN. All the purchases of sterling on demand loan no. 1 were not British Government drafts on you, were they? They were in the market buying all the sterling which was offered, were they not?

Mr. MORGAN. They were in the market buying all the sterling that was offered. I see what you mean.

Mr. WHITNEY. We would have to go back and look up each individual draft to know where it came from; would we not?

Mr. BROWN. To get any accurate figure, but I wanted to know your memory, roughly, of the estimates of what represented foreign purchasing and what represented American purchases.

Mr. WHITNEY. If you are going on my memory, that is an easy answer.

Mr. MORGAN. Twenty years? We cannot do it.

Mr. WHITNEY. They show what we made the bills for. Those are their commitments. That we know with a fair degree of exactitude.

Mr. BROWN. Yes.

Mr. WHITNEY. Due to the benefit of hindsight. They did support exchange, unquestionably. Whether those purchases were actually made in this country or the purchases made somewhere else and cleared through that exchange market, I do not quite see what difference it makes.

Mr. BROWN. I do not know whether it makes any difference, but it is a question of what the fact is.

Mr. WHITNEY. I would not know. I could not possibly tell.

Mr. RAUSHENBUSH. Let us get some figures in the record about this time. We have figures in the record which show that between May 1916, and December 1, you had spent $450,000,000 pegging exchange.

Mr. WHITNEY. Doing what?

Mr. RAUSHENBUSH. Supporting sterling.

Mr. WHITNEY. Buying sterling.

Mr. RAUSHENBUSH. Buying sterling. Let us go ahead with it. With the result of pegging the exchange.

Mr. LAMONT. With what result?

Mr. RAUSHENBUSH. I added the words for Mr. Whitney's benefit, "with the result of pegging the exchange." Do you want to fight on that one?

Mr. WHITNEY. Not a bit. I just could not hear.

Mr. RAUSHENBUSH. Also figures to the effect that in December—it turned out your demands for sterling were heavier than you thought or had planned on—you spent in that one month $210,000,000 on exchange.

Mr. WHITNEY. We spent 40 or 50 million on exchange, I know, in one day.

Mr. RAUSHENBUSH. We make the total $210,000,000 in that month, which is at a far faster and heavier rate than in the previous months.

Mr. WHITNEY. There is no question, but do you want the answer on it?

Mr. RAUSHENBUSH. We would like to take it up in our own way, but if you have anything to add, we would be glad to get it.

Mr. **Whitney**. Go ahead.

Mr. **Raushenbush**. I offer for the record a letter from Mr. Warburg to Mr. Treman, dated November 23, 1916, in which he describes the feeling of the Federal Reserve Board to this extent [reading]:

> The Board did not feel that it should take the responsibility of advising the investors and it was thought that as long as there was a natural process of financing our foreign trade by a back-flow of securities into the hands of the investors, the United States were doing in effect a cash business which could only be considered a healthy one.

And so forth.

There are other things in there which need not stop us. However, that is offered for the record.

(The document referred to was marked "Exhibit No. 2586" and is included in the appendix on p. 8719.)

Mr. **Raushenbush**. Then we come to your cable of November 20, 1916, for H. P. Davison, from Morgan in London, which seems to describe one thing of some importance, which we find on the second page in our document here.

Mr. **Whitney**. What is the number?

Mr. **Lamont**. 26519?

Mr. **Raushenbush**. Correct. In the first paragraph it states [reading from "Exhibit No. 2587"]:

> Had lunch with Chancellor today, who says that during next 90 days he can collect between gold and securities enough to make together $1,000,000,000, and more securities if needed. Of course, he does not wish to use this gold.

And then asks for advice, since exchange has to be paid for in large quantities. The point we are coming to is this, in another paragraph [reading]:

> He has at present no obligations to the Allies beyond March 1, though he knows that in a few weeks before that date there will have again to be an international conference and an arrangement as to what they can get from Great Britain. All that will depend largely upon his American situation at that time, and that in turn will depend upon how much we can do for him between now and March 1 and our opinion of the outlook.

Is not that a fair statement at that time, that the Allies were dependent for their financing upon Great Britain, and that Great Britain was dependent upon the United States, American financing, and that boiled down to you? Is not that what it says?

Mr. **Lamont**. You speak as if that financing is the only resource. It was pointed out to us clearly that they had great stocks of gold which they were prepared to send over, we will repeat again, and we knew they were selling American securities constantly and getting British securities.

Mr. **Raushenbush**. It boils down from all of this that the other Allies, France, and Russia, looked to Great Britain, and then Great Britain looked to you?

Mr. **Lamont**. The bulk of it was on Great Britain.

Mr. **Raushenbush**. The Chancellor is saying that it is on Great Britain and, through Great Britain, it is on you.

Mr. **Lamont**. For dollars.

Mr. **Raushenbush**. Yes, sir.

Mr. **Whitney**. Did you read the first sentence of that?

Mr. **Raushenbush**. If not, I would be glad to. You mean about having lunch with the Chancellor?

Mr. **Whitney.** No; not that.

Mr. **Raushenbush.** That is not very important now. However, I read it as follows [reading]:

> Had lunch with Chancellor today, who says that during next 90 days he can collect between gold and securities enough to make together $1,000,000,000 and more securities if needed.

Mr. **Whitney.** It says "during the next 90 days."

Mr. **Raushenbush.** That is what he says.

Mr. **Whitney.** And "more securities if needed."

Mr. **Raushenbush.** That is what he says on November 20.

(The document referred to was marked "Exhibit 2587", and is included in the appendix on p. 8721.)

Mr. **Raushenbush.** Now, we come to a cable dated November 21, 1916, to Morgans in London, in which you tell them over there [reading from "Exhibit No. 2588"]:

> We confidently believed that last issue was on a basis which would show a profit to the public——

Mr. **Lamont.** What number is that, if you please?

Mr. **Raushenbush.** 31458.

Mr. **Lamont.** Oh, yes.

Mr. **Raushenbush** (reading):

> We confidently believed that last issue was on a basis which would show a profit to the public, but the requirements are so great and the public now aware of necessity of succeeding issues, that we are fearful that no issue on creditable terms will show profit although with lapse of few weeks conditions may so improve as to give us renewed hopes and courage as in past.

It says [reading]:

> * * * requirements are so great and the public now aware of necessity of succeeding issues that we are fearful that no issue on creditable terms will show profit. * * *

The thing had gotten to the place on November 21, apparently, that unless conditions improved appreciably——

Mr. **Lamont.** That is what it says.

Mr. **Raushenbush.** That is a pretty pessimistic statement, is it not?

Mr. **Whitney.** The 21st?

Mr. **Raushenbush.** The 21st; yes, sir.

Mr. **Lamont.** After a time they did improve, late December.

Mr. **Raushenbush.** We will get to that situation later.

That cablegram is offered for the record.

(The document referred to was marked "Exhibit No. 2588", and is included in the appendix on p. 8722.)

Mr. **Raushenbush.** Then a cable of November 22, 1916, to Morgan in London, in which you say [reading from "Exhibit No. 2589"]:

> Anticipated payments tomorrow will completely exhaust and probably will require us to reopen no. 1 and no. 2 loans, reluctant as we are to do so so soon after conclusion of last United Kingdom loan operation, being apprehensive as to sentimental effect upon banks and bankers in this market.

That meant that the U. K. loan, which had come along November 1, did it not, had sufficed only up to November 22, and that you would again have to reopen your demand loans and start loaning out of your own pockets to these people? Is not that what it is?

Mr. **Whitney**. This meant that the $114,000,000 had been spent, and that we were going to open the demand loans. So that we say [reading]:

> In view of all the foregoing, kindly cable instructions promptly to ship from Ottawa $25,000,000 gold and be prepared to ship a second $25,000,000 upon cable advice.

Mr. **Raushenbush**. Yes, sir; that cable is offered for the record in its entirety.

(The document referred to was marked "Exhibit No. 2589" and is included in the appendix on p. 8724.)

Mr. **Raushenbush**. I want to see if we are quite clear on this. Here was a loan issued November 1 for $300,000,000, and by November 22 it was already paid out, was it not, to the extent where you had to start opening up credits again?

Mr. **Whitney**. $10,000,000 a day.

Mr. **Raushenbush**. $10,000,000 a day. A little faster.

Mr. **Whitney**. A little faster. That was because of exchange.

Mr. **Olds**. Part of it was used to pay off the other loan.

Mr. **Raushenbush**. Part of it was used to pay off the other loan.

Mr. **Whitney**. There was $114,000,000 left.

Mr. **Raushenbush**. Next is a cable from Morgan in London to H. P. Davison, dated November 23, 1916, which seems to answer a previous cable, in which the situation seems to be set out pretty frankly; that is, the Chancellor's position. It states (reading):

> If Chancellor of the Exchequer cannot feel it probable that he can put out another loan between now and January 1, he is in grave doubt whether he ought to proceed in exhausting his available gold and American securities, and matter would have to be subject of discussion in a Cabinet and possibly among all the Allies. Chancellor regards early issue of unsecured loan as of gravest importance.

That cable is offered for the record.

(The document referred to was marked "Exhibit No. 2590" and is included in the appendix on p. 8724.)

Mr. **Raushenbush**. There is an indication there, and in the next cable, that he is going to need $1,000,000,000 up to March 31. That is in the next paragraph at the end of all this—

> You can see this makes it $1,000,000,000—

and that the British have 1 billion in gold and available securities but do not want to put them up. They want an unsecured loan.

Mr. **Whitney**. Which we tell them is impossible.

Mr. **Raushenbush**. Which you have been telling him is impossible, and I think again you do.

Mr. **Whitney**. This cable, Mr. Raushenbush, of course, is an answer to an inquiry from us to Mr. Morgan to be a little more detailed in the reference back here to $1,000,000,000 which he can get within 90 days. These are the immediately available resources.

Mr. **Raushenbush**. Yes, sir. Then they tell you (referring to exhibit 2590):

> I realize fully the discouragement of seeing the issues drag, and the difficulty of putting another one out imediately on top of the last, which has not yet been digested, but if there is any way in which it can be forced between now and January 1, I believe it is essential that it should be done.

The pressure was getting terriffic here, was it not? They were forcing one issue after another before they could be swallowed or digested.

Mr. Whitney. Pressure both ways.

Mr. Raushenbush. What do you mean?

Mr. Whitney. Pressure on us to put out another loan and pressure on our part to tell them it could not be done and they would have to look some place to see where they were going.

Mr. Raushenbush. And pressure by you upon the bankers to go along?

Mr. Whitney. None whatever.

Mr. Raushenbush. There is some of that in the letter.

A cable of November 23, 1916, from Morgan in London to H. P. Davison, which shortens the problem down to mid-January, apparently, and says on November 23 that the requirements up to mid-January would be $450,000,000.

Mr. Whitney. Which cable is this, please?

Mr. Raushenbush. No. 26592.

(The document referred to was marked "Exhibit No. 2591" and is included in the appendix on p. 8725.)

Mr. Raushenbush. He says if, in order to get that, he has to use a large part of his immediately available American assets, then he will have to go in for much more economy. In other words, he does not want to put up the American securities he has got over there available for these loans, and is saying that rather than do that, rather than give up the rest of the American securities, they have got over there, maybe they will economize and not buy as much as before. Is not that what you get out of it?

Mr. Whitney. That was the alternative. They had to use immediately available resources in the way of gold or securities or they had to economize.

Mr. Raushenbush. Then a cable of November 23, 1916, no. 31592 is offered for the record.

(The document referred to was marked "Exhibit No. 2592" and is included in the appendix on p. 8725.)

Mr. Raushenbush. In that cable you tell him pretty frankly [reading]:

> We are able to offer no encouragement whatsoever in regard to any new issues, either secured or unsecured, prior to January 1. Not only are present issue draggy but you will recall that it is the period of the year when money works close with banking institutions all over the country. If immediately after the first of the year we find that situation has changed, you, of course, can rely upon our making every effort; but to attempt another issue before January 1 unless there is a radical change for the better in the situation, which we do not anticipate, would be to invite failure and discredit.

This was all before the Federal Reserve Board warning, was it not?

Mr. Whitney. You will remember call money went up to 15 percent.

Mr. Raushenbush. Then in paragraph numbered 4, it states [reading]:

> You state the Chancellor's view is that if he must pursue plan as just set forth, he must then reconsider whole subject with a view to rigid economy. Serious as such a step would be we can see nothing else to be done with the situation as it is over here today. You state that Chancellor is in grave

doubt as to whether he ought to proceed in using up his available quick assets over here, yet it seems to us that there is no alternative, always provided the total amount to meet is as large as stated and provided further that Exchequer bill resources are as we apprehend, not likely to be large for the present.

Mr. WHITNEY. That is what I was trying to remember when we told them we did not expect any large sale of Treasury bills.

Mr. RAUSHENBUSH. Cutting down and economizing would have meant definitely a setback in the war, would it not?

Mr. WHITNEY. It depended upon how much their own resources had been developed.

Mr. LAMONT. There are two comments which might be made upon that, Mr. Raushenbush. One is that they had planned from the start of the war to develop their own resources as to finished munitions in England, as rapidly as possible, and they were accomplishing that end. The other is that they were naturally building up munition factories in Canada.

Mr. BROWN. Yes; but, Mr. Lamont, a Government as hard-pressed as Great Britain was not going to strain its resources in the United States to buy things it could do without, was it? What they were buying was essential. If they had had to cut down on that, they would have to cut down on essentials?

Mr. WHITNEY. Perhaps an answer to that is made in a cable sent to us by Mr. Morgan on the 23rd day of November, which referred to the cable to which the large one was an answer. It says [reading from "Exhibit No. 2591"]:

This, of course, he [the Chancellor] does not want to do because it might interfere with the progress of the war.

It is the answer to your question pretty flatly.

Mr. RAUSHENBUSH. Yes. Then we find this supposed answer of November 24, 1916, which leaves out the questions, paragraphs 4 and 5, or at least they do not seem to be in the cable here, so that we do not know what the comment of the Chancellor on the economy program was. That cable of November 24, 1916, from Morgan in London is offered for the record with appropriate number.

(The document referred to was marked "Exhibit No. 2593" and is included in the appendix on p. 8727.)

Mr. RAUSHENBUSH. On November 25, 1916, you show an interest in subsidiary financing. Did anything ever come from that subsidiary financing which was discussed, and the financing of British municipals and the like?

Mr. WHITNEY. No; nothing did, except to this extent: As far as the London municipals are concerned, as you know, the enabling legislation to make such issues had been passed, and plans were made and pretty well along by the time the United States got into the war, to do that financing. As far as the Canadian Pacific Railway is concerned, we were practically ready to go on the 16th of April, and we held them up at the request of the Secretary of the Treasury because he had certain United States financing to do, so that they did not definitely come up, but they were ready to be done.

Mr. RAUSHENBUSH. They were really trying to find every possible way of raising money, and you even discussed the matter of financing small municipals at the time?

Mr. WHITNEY. Yes, sir.

PROPOSED ISSUE OF BRITISH AND FRENCH TREASURY BILLS[1]

Mr. Raushenbush. At this point the discussion of these Treasury bills of the British and French was suggested, was it not?

Mr. Lamont. Back early in November, was it not?

Mr. Raushenbush. You mean October?

Mr. Lamont. Perhaps late in October. I do not recall. The first suggestion, my people tell me, was in October.

Mr. Raushenbush. Was in October. The point of those Treasury bills, as far as the prices went and the Chancellor's need for money, was that these Treasury bills supposedly would be unsecured, would they not? As we get the picture, they would be a floating amount that you could buy in from time to time and issue new ones, and keep it up to some figure which was discussed. I think $300,000,000 was the figure in your cables, and, as I said, there was some report——

Mr. Whitney. You have turned to something which we apprehended (quoting from p. 963 of Morgan document):

> We have completed arrangements, respectively, with the British and French Governments whereby we shall be in a position, on December 1, to supply for investment Treasury Bills of the two respective Governments, in the form of the specimen note attached hereto, which is substantially along the lines of New York City revenue bills.

They are just like the United States Treasury bills, or the British Exchequer bills.

Going back to October, the original suggestion was——

Mr. Raushenbush. This is October 20, is it?

Mr. Whitney. Yes, sir; October 20.

Mr. Raushenbush. The cablegram of November 25, 1916, no. 31674 is offered for the record.

(The document referred to was marked "Exhibit No. 2594" and is included in the appendix on p. 8728.)

Mr. Raushenbush. Let us read the second paragraph of the cable of October 20, 1916, the whole of which will be offered for the record.

(The document referred to was marked "Exhibit No. 2595" and is included in the appendix on p. 8729.)

Mr. Whitney. The first and second parts [reading]:

> First, let us try to market within a reasonable period by selling them over the counter, say, $300,000,000 of British Exchequer bills running anywhere from 60 days to 1 year and assorted over various maturities in whatever way we might determine at the time of sale.
>
> Second, let these bills be secured not by any indenture or trustee, but at most by formal statement from this firm that we had allocated between $350,000,000 and $400,000,000 of American and neutral securities against these bills. If, when we get closer to the operation, which of course would not begin until the new loan is out of the way, we found that we could peddle out bills unsecured and even without any reference to security, then so much the better, but we do not deem that probable.

Do you want to read the next one?

Mr. Raushenbush. I do not think we need that one. But as the operations went on, the security element dropped, did it not?

Mr. Lamont. Yes; and our own idea as to volume dropped.

Mr. Raushenbush. And your own idea as to volume dropped; all right. Now, we find a cable here dated November 20, 1916, despatched from H. P. Davison to Mr. J. P. Morgan in London, reporting that he had talked with the Federal Reserve Board about the French acceptance credit, and also reporting their attitude toward the Treasury bills, meaning these bills, we take it.

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[1] See also "Exhibits Nos. 3134 through 3156 and 3218", Hearings, Part XXX.

That cablegram is offered for the record.

(The document referred to was marked "Exhibit No. 2596" and is included in the appendix on p. 8730.)

Mr. Raushenbush. That cable reads in part as follows [reading]:

> However, they gave me to understand they would take no steps at this time and would confer with me before doing so, should they decide to make statement. Afterwards had an interview with Woodrow Wilson which was altogether cordial and rather more encouraging, but on the whole my trip to Washington does not increase my hopes for easy future financing. However, no use speculating this subject; only thing we can do is to continue to do our best.

Then there are some cables which I offer for the record, in which Mr. Davison cables to France and Britain, trying to get the figures of their external and internal debt and the relation between their cables of November 20, and the reply of November 21.

Mr. Whitney. At the request of the President?

Mr. Raushenbush. At the request of the President; yes, sir. There is also one of November 23, 1916, in reply to that.

(The documents referred to were marked "Exhibits Nos. 2597, 2598, and 2599", and are included in the appendix o npp. 8730 and 8731.)

Mr. Raushenbush. I might say for the record that there are also two cablegrams of the same date, November 23, 1916, which are also offered for the record.

(The documents referred to were marked "Exhibits Nos. 2600, 2601, and 2602", and are included in the appendix on p. 8731.)

Mr. Raushenbush. Now, we come to a report of the Federal Reserve Board meeting which led to that warning, and we get a picture of it again through Mr. Warburg in a letter to Mr. Strong, Governor Strong, which letter I offer for the record, being under date of November 23, 1916.

(The document referred to was marked "Exhibit No. 2603", and is included in the appendix on p. 8732.)

Mr. Raushenbush. Mr. Warburg in his letter to Governor Strong states in part as follows [reading]:

> I have just finished dictating a letter to Mr. Treman, in which I give him the meat of our last conference with the Advisory Council and also of our meeting with Mr. Davison, who was here last Saturday.
>
> As you know, there has been going on quite an active press campaign, the object of which was to show that unless we granted foreign credits quite freely, the country ran the risk of being choked with gold with the attendant consequences of inflation of prices and credits.

Then the following paragraph appears later in the same letter [reading]:

> Davison took the point of view that they only wanted to do what was good for the country, but that the British Government was buying about $10,000,000 worth a day, and if we did not place these loans, we were taking the responsibility of cutting down the trade of the country—"a very serious responsibility, as we were now in a fair way of becoming the masters of the world." The more we stimulated this trade and the more loans we made to these foreign countries the more would we increase our predominance.
>
> Governor Harding (who had taken the precaution during the last weeks to place himself in touch with the leading authorities in questions of foreign policy—

Mr. **Lamont**. Governor who?

Mr. **Raushenbush**. Harding [continuing reading from "Exhibit No. 2603"]:

> in order to be sure that we were acting in fullest accord with what generally would be considered the best interest of the country) pointed out to Mr. Davison that there was some danger of a creditor becoming so much involved with one debtor that finally, no matter whether the creditor wanted to or not, he would have to go in deeper and deeper. In other words, while you thought you had the bull by the tail, as a matter of fact, the bull had you by the tail. In this case, it is John Bull who would have us by the tail.

Mr. **Lamont**. Does he put that in the letter?

Mr. **Raushenbush**. Certainly; that is not my language. That is Governor Harding's and not Mr. Warburg's.

Mr. **Lamont**. This is Governor Harding's letter?

Mr. **Raushenbush**. No; he is quoting Governor Harding. He has apparently been seeing the leading authorities in the country on finance and points out to Mr. Davison—

> that there was some danger of a creditor becoming so much involved with one debtor that finally, no matter whether the creditor wanted to or not, he would have to go in deeper and deeper. In other words, while you thought you had the bull by the tail, as a matter of fact, the bull had you by the tail. In this case, it is John Bull who would have us by the tail.

Do you think Governor Harding was entirely incorrect in summarizing the possibilities of the situation at that time?

Mr. **Lamont**. Mr. Raushenbush, I do not think that we should describe the situation in the language that he utilizes there, largely because, as you have pointed out, in these cables, and as we have said again and again, the loans that we were setting up were secured loans, with the possible exception of this Treasury bill operation which never took place.

Mr. **Raushenbush**. Which was the one under discussion, however, at this time, and which you tried hard to put over up to that time. That is the case?

Mr. **Lamont**. Certainly.

Mr. **Raushenbush**. Here is a fair analysis by a man whose financial judgment, or patriotism, or what you will, is not particularly in question, and who has just been consulting the leading authorities on foreign affairs on that, and he offers that suggestion and

> pointed out to Mr. Davison that there was some danger of a creditor becoming so much involved with one debtor that finally, no matter whether the creditor wanted to or not, he would have to go in deeper and deeper * * *

All I was asking was as to whether that did not seem a perfectly reasonable analysis, since that was taking place and developing at that time?

Mr. **Lamont**. Very likely. Governor Harding was a very sincere man and well informed. I am not sure to what extent he had an idea of the resources of the British Government in the way of gold and securities.

Mr. **Raushenbush**. It goes on to say [reading from "Exhibit No. 2603"]:

> The discussion with Davison was very pleasant and led to no definite conclusions, which I believe he wanted to avoid. He understood, however, our point of view. While he pointed out to us that we had a duty to finance this trade, he could not answer us when we pointed out that we were financing 10 days according to his own statement and that he could figure

> out for himself the tremendous amounts that this country would have to take in foreign loans if his argument were to prevail that this trade ought to be continued indefinitely and by all means by continuing loans. He answered that, of course, they would not go beyond a reasonable amount, but I believe we have lost what was our standard for what is reasonable and what unreasonable; and, moreover, the further we go the more difficult it will be to stop.
>
> Men like Wing, Rue, Forgan, and Fleishacker all shared these views, and as to the foreign acceptance credits they went in their recommendation even further than the Board wishes to go.

Then, Mr. Chairman, we turn the record from these cables a minute, we turn to the diary of Mr. Hamlin, a member of the Federal Reserve Board, and he records an entry in regard to these British exchequer bills that we are now talking about on November 19, 1916 [reading]:

> Interview of Board with Davison as to.
> Harding disturbed at remark of.
> Board tells Davison may have to issue statement.
> Lansing says Board should go slow in approving unliquid unsecured.

That is on November 19.

Then on November 20 are some further entries:

> New York Tribune says banks will take one billion dollars of these notes.

Mr. LAMONT. One billion?

Mr. RAUSHENBUSH. One billion; yes, sir.

Mr. WHITNEY. Which notes?

Mr. RAUSHENBUSH. The British Exchequer notes we are talking about.

Mr. WHITNEY. One billion?

Mr. RAUSHENBUSH. Yes, sir.

Mr. MORGAN. The Tribune was misinformed.

Mr. RAUSHENBUSH (continuing reading from Hamlin diary):

> Harding called up Lamont who said New York Tribune statement went too far.

Mr. LAMONT. I am glad I made a conservative statement, Mr. Raushenbush.

Mr. RAUSHENBUSH. Have you ever done that at any other time, Mr. Lamont?

Mr. LAMONT. Saying that he called me up?

Mr. RAUSHENBUSH. Saying that the Tribune went too far. It states:

> Harding calls up Lamont—

meaning you—

> who said New York Tribune statement went too far.
>
> Harding tells Lamont Board may have to issue public statement.
>
> Lamont says if this is done they may have to change their plan. Says none will be offered before December 1 and then only 10 or 15 million dollars.
>
> Harding says as Davison consulted Board, Board thought it fair to say it might make a public statement.
>
> Lamont asked no action be taken without letting him know.
>
> Harding said would report this request to Board.

Here is another part of it [reading]:

> Voted that Harding inform President of situation.
>
> Glass told Board it ought to make a public statement.
>
> Board prepared letter of warning to F. R. agents.
>
> Tried to get interview with President but no reply received to our request to Tumulty.

Board voted to send letter

Lamont wired that would make announcement that issue would be limited one, and not unlimited as stated by New York Tribune.

TREASURY BILLS—INTERVENTION OF PRESIDENT WILSON [1]

Mr. **Raushenbush.** Now we have here a letter from Mr. Harding to the President, on November 27, 1916, which I offer for the record with appropriate number.

That letter reads as follows:

> Dear Mr. President: Will you permit me to thank you for your memorandum and to say that the Board has strengthened its statement somewhat and that it will be given to the press for publication tomorrow morning.
>
> I enclose a copy of the revised statement with the new matter underlined.

We want to offer for the record here a copy of the statement, with the new matter underlined in italics, the portion added after Mr. Harding's conference with the President.

(The letter and the enclosure referred to were collectively marked "Exhibit No. 2604", and are included in the appendix on p. 8734.)

Mr. **Raushenbush.** We want to offer for the record also a letter from Woodrow Wilson, dated the same day, November 27, 1916, to Mr. Harding, which reads as follows:

> My Dear Mr. Harding: Thank you sincerely for the revised copy of the statement. The addition seems to meet very adequately what I had in mind.
>
> Cordially and sincerely yours,

(The document referred to was marked "Exhibit No. 2605" and appears in full in the text.)

Mr. **Raushenbush.** You had a copy of it a minute ago, Mr. Whitney, the added portion.

Mr. **Whitney.** I never knew about the added portion. Which is the final one?

Mr. **Raushenbush.** The one with the added portion. If you have got it in front of you, I will continue.

Mr. **Whitney.** This is merely the press release which we have got.

Mr. **Raushenbush.** After discussing this question of credits, the added portion is [reading from "Exhibit No. 2604"]:

> The Board deems—

Mr. **Lamont.** About what part of the release is it in?

Mr. **Raushenbush.** Near the end.

Mr. **Lamont.** Thank you.

Mr. **Raushenbush** (continuing reading):

> The Board deems it, therefore, its duty to caution the member banks that it does not regard it in the interest of the country at this time that they invest in foreign Treasury bills of this character.

Mr. **Whitney.** Is that the added stuff?

Mr. **Raushenbush.** I am just reading the added stuff [continuing reading]:

> The Board does not consider that it is called upon to advise private investors but as the United States is fast becoming the banker of foreign countries in all parts of the world, it takes occasion to suggest that the investor should receive full and authoritative data, particularly in the case of unsecured loans, in order that he may judge the future intelligently in the light of present conditions and in conjunction with the economic developments of the past.

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[1] See also "Exhibit No. 3218", Hearings, Part XXX.

Mr. WHITNEY. That is almost instructions to educate the public.

Mr. RAUSHENBUSH. It is stronger than that, if you will read through the rest. That is the only place, I think we can agree, Mr. Whitney and Mr. Morgan, where there is something definite, saying to the member banks, "Look out; it is not in the interest of the country to use this stuff."

Mr. WHITNEY. Yes, sir.

Mr. RAUSHENBUSH. And to the private investor, "Look out." There is nothing in the general discussion in the rest of it which is at all as emphatic as that.

Mr. LAMONT. That addition ends with the word "past"?

Mr. RAUSHENBUSH. With the words "economic developments of the past"; yes, sir.

Then we come to some interesting things here, Mr. Chairman, again in Mr. Hamlin's diary. I missed reading his diary of November 25 before [reading]:

> Harding has interview with President.
>
> Harding said had hoped Board would make announcement, but had not felt like suggesting it. He would read out statement and write us Monday as to it.

Then his diary of November 27, 1916, states [reading]:

> Governor Harding reads confidential letters from President.
>
> President says letters not strong enough.
>
> Says would be very embarrassing to have banks invest in this kind of security, if there should be any change in our foreign policy.
>
> Draft then revised.

What do you make of this entry there, describing the report that Harding makes back to the Board, after he has been told by the Board to go see the President?

It had been voted that he do it, and he has this interchange of correspondence with the President, and he comes back and the President says the letter is not strong enough, and he quotes the President as saying [reading]:

> Would be very embarrassing to have banks invest in this kind of security, if there should be any change in our foreign policy.

What do you make of it?

Mr. LAMONT. That is Mr. Hamlin's diary, is it not?

Mr. RAUSHENBUSH. That is right.

Mr. LAMONT. I would think he could interpret it better.

Mr. RAUSHENBUSH. We have talked to him about it, but we are trying to get your reaction to that. Mr. Morgan, you know about that?

Mr. MORGAN. My reaction is that it is what the President said to Mr. Hamlin or the Board.

Mr. RAUSHENBUSH. Were you in London at the time, or here?

Mr. MORGAN. I was in London.

Mr. RAUSHENBUSH. How about you, Mr. Lamont?

Mr. LAMONT. I was here, on the job.

Mr. RAUSHENBUSH. When that was said to be the most serious thing happening to finance, what did you think? Did you see the foreign angle of it, the President saying [reading]:

> It would be very embarrassing to have the banks invest in this kind of security, if there should be any change in our foreign policy?

Mr. LAMONT. What is your interpretation of it?

Mr. RAUSHENBUSH. I asked first.

Mr. LAMONT. I go back to our friend Charles S. Hamlin. I do not know what he means. What is your guess? If you will make a guess, I will see whether I can agree with you or not.

Mr. RAUSHENBUSH. You did not see any foreign angle on this at all as to keeping the banks liquid?

Mr. LAMONT. Of course they must always be liquid.

Mr. RAUSHENBUSH. Oh, but they had not been liquid up to this point.

Mr. LAMONT. Mr. Whitney has something here which may bear on that.

Mr. RAUSHENBUSH. What is that?

Mr. WHITNEY. You asked us what we thought of it?

Mr. LAMONT. This is the Hamlin diary about the foreign angle.

Mr. RAUSHENBUSH. About the foreign angle.

Mr. LAMONT. He said, if our foreign policy should change, whether——

Mr. WHITNEY. He wants us to comment about what it meant?

Mr. LAMONT. Yes, sir.

Mr. WHITNEY. We did not know about Hamlin's diary, did we?

Mr. LAMONT. No, sir; but he is asking us to interpret it.

Mr. RAUSHENBUSH. I was asking if you had gotten any foreign angle on it, that there might be a change in our foreign policy in 1917?

Mr. LAMONT. No; we were not in the confidences of the Administration you know, Mr. Raushenbush, at all.

The CHAIRMAN. But you were in the confidences of the officers of the Federal Reserve Bank, were you not, or the Federal Reserve Board?

Mr. LAMONT. We knew Governor Strong very well, and, as it appears here, we knew Governor Harding, and we knew personally most of the members of the Board.

The CHAIRMAN. But the Governor was close and enjoyed the confidences of the President evidently, did he not?

Mr. WHITNEY. What is he asking?

Mr. LAMONT. He is asking what we thought of Hamlin's comment on this foreign policy at the time.

Mr. RAUSHENBUSH. That is not it.

Mr. WHITNEY. I misunderstood it.

Mr. RAUSHENBUSH. It was whether you, at the time this announcement or warning came out to "clear the decks" if you will, or keep the banks liquid, whether you had seen the possibility of a change in our foreign policy? That was the only question asked.

Mr. LAMONT. A change in our foreign policy?

Mr. RAUSHENBUSH. I do not know; I am asking.

Mr. LAMONT. We knew nothing except what was in the public press at the time. The public press was filled with the fact that our State Department, as Senator Clark has shown, was having a controversy over contraband, and there was a little peace talk about this time, was there not?

Mr. RAUSHENBUSH. Not on November 27.

Mr. Whitney. Do I understand, Mr. Raushenbush, you are asking us what we thought at the time, or what we think now?

Mr. Raushenbush. At the time of the foreign angle.

Mr. Lamont. As I understand it, Mr Raushenbush is asking us whether we had any intimation that the Administration was going to change its foreign policy. Is not that your question?

Mr. Raushenbush. It was not even as specific as that. It was, whether you saw any angle or change in foreign policy involved in the order from the Federal Reserve Board which practically warned the banks to keep liquid and stay clear.

Mr. Lamont. No; not unless Mr. Whitney's projected allusion here, to certain members of the Federal Reserve Board, bears on that. Is that what you mean?

Mr. Raushenbush. I do not remember——

Mr. Lamont. I thought that you meant, Mr. Raushenbush—and you will please correct me if I am wrong—did we have the slightest intimation of any kind that the Administration was going to make some radical change in its policy? The answer to that is we did not have the slightest.

Mr. Raushenbush. Did you give it any interpretation, that it might have?

Mr. Morgan. So far as I can make out, we never knew the facts. This is in Mr. Hamlin's diary and was not a part of the public statement.

Mr. Raushenbush. No; it was not; but your people spent a lot of time interpreting the public statement.

Mr. Morgan. It was not in the public statement that they were contemplating a change in policy, was it?

Mr. Raushenbush. No; but what did you see in it outside of a warning to investors?

Mr. Morgan. Mr. Raushenbush, I am afraid I am too unsuspicious, and when I read a thing, I think it means what it says there. Maybe I am too unsuspicious.

Mr. Raushenbush. That is all right speaking for yourself, Mr. Morgan, but your office thinks things out and tries to figure what things mean.

Mr. Morgan. I do not waste any time on that. I see a thing and if it means something plain and simple, I say it means that.

Mr. Raushenbush. What does this mean?

Mr. Morgan. I do not know what it means.

Mr. Lamont. Mr. Raushenbush, we were very much disappointed when the Federal Reserve Board handed down this ruling, very much disappointed—there is no doubt about that—because we thought this might be a handicap on additional financing.

Some of our boys handed me a note saying that our cables show that our fear in regard to the Federal Reserve Board's action was not in our minds concerning the change of foreign policy. I do not know what the cables are.

Mr. Raushenbush. I was asking about information. I warned you that I was going to try to get information today.

Mr. Lamont. According to my recollection, we did not have the slightest intimation of any change.

Mr. RAUSHENBUSH. You wired this whole thing over to London in a cable dated November 27, 1916, which I offer for the record; and at the same time, or a little bit before that, on November 24, 1916, there is a letter with regard to going ahead with these Treasury bills, being addressed to Mr. Seward Prosser, vice president of the Bankers Trust Co. of New York, which I offer for the record; also a wire to Mr. Anderson of the Bank of California.

Those are not important. They are just letting them know.

(The letter of Nov. 24, 1916, above referred to, was marked "Exhibit No. 2606", and is included in the appendix on p. 8735; the telegram of Nov. 25, 1916, above referred to, was marked "Exhibit No. 2607" and is included in the appendix on p. 2736; the letter of Nov. 27, 1916, above referred to, was marked "Exhibit No. 2608", and is included in the appendix on p. 2736.)

Mr. RAUSHENBUSH. You cabled the statement in full to London, under date of November 27, 1916, and that cable has already been offered for the record?

Mr. LAMONT. Yes.

TREASURY BILLS—MORGAN'S FIRST REACTION [1]

Mr. RAUSHENBUSH. Then on November 28, 1916, which was a day after this happened, you cabled to Morgan in London in part as follows [reading from "Exhibit No. 2609"]:

> Statement of Federal Reserve Board cabled you last night prominently displayed in our newspapers all over country and has caused great excitement in financial circles here. Comment is to effect that Board has gone far beyond its proper function in attempting to advise individual American investors to refrain from foreign loans. At a meeting of several prominent bankers this morning it was expressed opinion of all that statement is product of a certain gentleman who hopes that his efforts will be effective in forwarding peace propaganda being made by his native country. Regardless of the motives lying back of statement, we must recognize this as the most serious financial development in this country since the outbreak of the war and one likely to be of far reaching consequence. Please make this fact plain to the authorities so that they may consider whole situation in its grave aspects. All foreign loans were under pressure today, the Anglo-French 5's declining to 94¼ and interest, the United Kingdom 2-year 5 percent to 98⅞ and interest, the 3-year 5½ percent to 99 and interest, and the 5-year 5½ percent to 98⅛ and interest. The City of Paris 6 percent were the weakest and at their low point of 96⅜ and interest were off over 1 percent from yesterday's close. They closed slightly up at 97 as against issue price of 98¾. The American Foreign Securities Co. notes declined ¼ percent.
>
> For your information we plan to carry out program of having British and French Treasury bills available for sale December 1, but in view of Federal Reserve Board statement are convinced that sales will be negligible at any rate at start.
>
> For practical purposes Chancellor of the Exchequer must in his calculations disregard Treasury bills entirely relying for his future requirements until situation radically changes upon his available supplies of gold and American securities for as he must realize this weighty statement from Government banking heads expressly requesting American investors to refrain from buying allied obligations, postpones by still further period possibility of any new British, French, or Allied loan here. Of course, situation may change but at present outlook is very dark, and we should now doubt whether it would be possible even to consider any fresh loan operation of importance until well after the turn of the year. Every effort, as you must realize, will be made by us and our associates by educational processes to counteract throughout the country statement just issued, but we have got to begin at the bottom of the hill once more, and it will be a long slow process with very much depending

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[1] See also "Exhibits Nos. 3192 through 3218", Hearings, Part XXX.

> upon future attitude of our authorities. Meanwhile, we can see no way except for your authorities to consider ways and means for immediate curtailment of purchases letting such action be announced without rancor but explicitly with possible good effert upon American attitude.

Then in the next paragraph of the same cablegram you state [reading]:

> Exchange situation is, of course, very grave, and we have bought for you today almost £4,000,000 of exchange. We cannot, of course, maintain this pace even for a few days. We will cable you again on this particular aspect referring to the guaranty of exchange on American deposits in London.
>
> We wish this cable to make clear the fact that despite our most strenuous efforts this Federal Reserve Board statement has brought about such a radical change for the worse in the whole situation that from this time on until further notice authorities must rely for their requirements solely upon their gold, their American securities, and the various special deals along lines of railway shares and the others that we have already discussed.

And so forth.

(The document referred to was marked "Exhibit No. 2609" and is included in the appendix on p. 8738.)

So, not only exchange over here, but everything had gotten worse, because of this statement, and the whole structure of things continued getting worse, until the whole situation was seriously threatened?

Mr. LAMONT. For the time being it had a very adverse effect; there is no doubt about that.

Mr. RAUSHENBUSH. This cablegram states [reading from "Exhibit No. 2609"]:

> We must recognize this as the most serious financial development in this country since the outbreak of the war * * *.

Mr. LAMONT. That is the reason we cabled and insisted they must be prepared to go ahead and ship any amount of gold and securities.

Mr. RAUSHENBUSH. Then you do in this cable seem to indicate a connection, which you have had manifest at various times, a connection between these transactions and the purchases and public sentiment?

Mr. LAMONT. Where is that?

Mr. RAUSHENBUSH. It is toward the end of the second paragraph as we have it here.

> The financial situation seems now to be as bad as everything we have said before, and we can see no way except for your authorities—

meaning the Chancellor of the Exchequer, I take it—

> to consider ways and means for immediate curtailment of purchases.

Mr. LAMONT. Is that in the cable?

The CHAIRMAN. Second paragraph.

Mr. RAUSHENBUSH (reading from "Exhibit No. 2609"):

> Meanwhile we can see no way except for your authorities to consider ways and means for immediate curtailment of purchases letting such action be announced without rancour but explicitly with possible good effect upon American attitude.

Mr. LAMONT. Of course you must remember, Mr. Raushenbush—of course you do—that you called attention to the two affirmative statements in the Federal Reserve Board's statement, one of which was almost instructions to the banks not to buy the Treasury bills; and, the second one was, the advice given at the instruction of the President, which of course no one knew at the time, for the investors not to buy. Of course, that was interpreted in this country as a very definite criticism of the goodness of the obligations of Britain and France.

Mr. RAUSHENBUSH. I understand that.

Mr. WHITNEY. Of course that changed. This depression of mind only lasted for a very few days, and it was only very shortly afterward, I think about December 1, that some members of the Federal Reserve Board, having heard the way their statement had been interpreted, began softening and qualifying it.

Mr. RAUSHENBUSH. We will get to the softening in a minute, but I still did not get an answer to my question, Mr. Whitney.

Mr. WHITNEY. The answer is in the cable now.

Mr. RAUSHENBUSH. No.

Mr. LAMONT. What is the question, Mr. Raushenbush?

Mr. RAUSHENBUSH. The question is this: Here, for the first time, you seem to state pretty frankly to the Chancellor what we have not been able to have you state on the stand here. You will remember this dispute on the connections between the war trade and financing and public opinion and the like. We have had that going on here at various times and there has been intimation from the Senators here, as I gathered it, and listened to it, a sort of suspicion that maybe some of this financing and some of this foreign business influenced public sentiment a little bit. I do not think that is exaggerating the sentiment which I have heard up here.

Mr. LAMONT. We have testified again and again that our success in issuing any loan at the moment was dependent largely upon the state of public sentiment at that time.

Mr. RAUSHENBUSH. Here you are coming in and suggesting for the British that you cannot see any way out except curtailing their purchases over here, and you say, "letting such action be announced without rancour but explicitly with possible good effect upon American attitude." That is that purchases are going to be cut down. The good effect would not be upon the financial people but on the Federal Reserve Board and public sentiment?

Mr. MORGAN. It seems that it would show the public that there was not going to be so much pressure on the American financial markets as heretofore and, consequently, they would not be asked to make such a heavy loan.

Mr. RAUSHENBUSH. Is that what you considered to be the "possible good effect upon American attitude"?

Mr. MORGAN. Yes, sir. Why not?

Mr. RAUSHENBUSH. Mr. Morgan, will you bother to read the rest of the cable, showing how terribly interested you still were in trying to do something for the British, which is all right because you were their agent? You say in another sentence there [reading from "Exhibit No. 2609"]:

> Every effort, as you must realize, will be made by us and our associates by educational processes to counteract throughout the country statement just issued, but we have got to begin at the bottom of the hill once more and it will be a long, slow process with very much depending upon future attitude of our authorities.

How can you reconcile that, by any stretch of the imagination, by saying that an announcement that British purchases are going to be curtailed will have a good effect upon the American public? That is something which I cannot understand.

Mr. LAMONT. My comment on that, Mr. Raushenbush, would be this:

There are two parts to the sentence which you have quoted. The first part was concerned with telling the British Government that it would have to cut its garment according to its cloth. That assertion or statement on our part was in accordance with the conservative practices which you attribute to our firm.

The second part was just as you say; we thought that when that fact was announced, that it might certainly affect the minds of the public who should sell their goods to Europe. There is no doubt about that.

Mr. RAUSHENBUSH. And would go back that way to the Federal Reserve Board and the Administration, to have them change that kind of a ruling?

Mr. LAMONT. The bankers who thought this ruling was inconsistent might well hear from their clients and depositors. I do not know.

Mr. RAUSHENBUSH. I can understand that explanation far better than I can understand Mr. Morgan's.

Mr. MORGAN. Mine was only a suggested explanation, Mr. Raushenbush. I was not here at the time and I had not noticed that before, to speak of. I would like to have it considered, that it might be one suggestion.

Mr. RAUSHENBUSH. Note the contrast, if you will there, between that suggestion and the rest of the letter or cable.

Mr. WHITNEY. Mr. Raushenbush, is it not possible, in trying to interpret what this means, that we are losing sight of our capacity in this situation? Here we were agents of the British Government. You have dwelt at a good deal of length this afternoon on the question of contracts and commitments; that we knew perfectly well, through our own contracts and the exchange market what was facing the British Government. Certainly there could be no franker statement than this that we gave our partners abroad, and through them to our clients, that the situation was very serious.

The one thing which both Mr. Lamont and I attempted to explain earlier was that at not only this time but throughout this whole period we were trying to advise the British Government so that they would not get in a position of embarrassment in paying for the goods they wanted to get.

We, along with other members of the financial community, did not think it was a sound ruling for the benefit of the general economy of the American public. It was certainly the only thing which we, as their agents, could do, to advise them that this certainly changed the situation very materially, and the logical thing, which is perfectly consistent with the previous cables, was that the Chancellor had communicated with our colleague in London and he had cabled us that if he could not get an unsecured loan, there was a large question in his mind as to why he should continue to expend available resources and should curtail his purchases.

Here was a definite estoppel for going ahead with loans as of this date. Were not we under duty bound to advise our clients that, generally speaking, they would have to curtail their purchases?

Why strive to try to put all different kinds of meaning on something that I should think is a perfectly simple statement?

Mr. RAUSHENBUSH. I think it is a perfectly simple statement, too, and the thing, I think, is simple and clear about it is the rest. However, before getting to it——

Mr. WHITNEY. When——

Mr. RAUSHENBUSH. Just a minute.

Mr. WHITNEY. What should I have added?

Mr. RAUSHENBUSH. Just a minute. It is perfectly natural to say, "Sure, we should have warned the British. They were out of luck and should have cut down. We were acting as good prudent agents."

At various times, in my humble way, I have tried to ascertain the situation. I asked about that in the middle of 1915, when the du Ponts were asked whether they would not accept a qualifying clause by the British Government, and I asked whether or not if that had been done the whole economic situation would have gotten a jolt. That was the situation with the British, but here it is sweetened and you say "without rancor, but explicitly with possible good effect upon American attitude."

It seems to me, running through every word of it is an equally business-like understanding of how it was considered at that time.

Mr. WHITNEY. Do you think it would have been better for them just to instruct us to cancel all contracts?

Mr. RAUSHENBUSH. That is still not the question, Mr. Whitney. I am awfully sorry I do not make it quite clear. I am trying to say, public opinion, American attitude, was one of the factors in your business. You said that 100 times.

Mr. WHITNEY. Certainly.

Mr. RAUSHENBUSH. As long as it was good, they would make the investments. When it was bad or the military results of the Allies were disappointing, or if there was a threat, as here, of a cancelation, something could be done to change American attitude.

So that my question, to go back to it again, which I asked before, is that by the fall of 1916, when that announcement came out, were you not pretty much of the opinion that a large part of America, not only the banking community, but the munitions community, was so strong and so much interested in this, that it could effect a reversal on the part of the Federal Reserve Board and the Administration?

Mr. WHITNEY. It is awfully hard to try to think back to what was meant 20 years ago, but my feeling is——

Mr. RAUSHENBUSH. There are some cases where your thinking is very clear.

Mr. WHITNEY. Here is a situation where the Federal Reserve Board ruling, which applied theoretically to certain functions of the Board, had adverse effect upon investors in buying Allied obligations. That attitude was very completely cleared up about a week later, as you have said, and that in effect was quite a blow. This is quite different from the question of day-to-day sentiment. Here is a definite position by an administration, or by a more or less semi-governmental body, definitely advising the investors of this country that they should not buy these obligations without more consideration.

Mr. RAUSHENBUSH. We agree on everything up to the last clause.

Mr. WHITNEY. Is it not reasonable that the British Government should take some position about that? They are face to face with a definite situation. This is not a question of theory but a question of fact. If that situation stayed, they could not borrow any more money, could they?

Mr. RAUSHENBUSH. They have got to take a position, but you tell them how to do it.

Mr. WHITNEY. Sure, with a possible good effect on the American attitude. What is there beyond what it says here?

Mr. RAUSHENBUSH (reading from "Exhibit No. 2609"):

> * * * with possible good effect upon American attitude—

that is, they were so much involved in the war trade and financing that they would get the Administration to change its policy on this?

Mr. WHITNEY. The Administration's policy had to do with loans, and had nothing to do with purchases and supplies.

Mr. RAUSHENBUSH. You see the connection?

Mr. WHITNEY. I see what you are trying to get at.

Senator CLARK. The two things were tied together. It was repeatedly stated here if they did not get loans they would not make purchases.

Mr. WHITNEY. Inferentially.

Senator CLARK. That was the excuse for changing the loan policy of the Government, was it not?

Mr. WHITNEY. This is something quite different.

Senator CLARK. I understand, but the loans in this country to the Allies and the allied purchasing in this country were interlinked from beginning to end.

Mr. WHITNEY. The question of giving a good purchaser time certainly came in. That is why they borrowed the money. There is no question about that.

Senator VANDENBERG. The effect upon American public opinion would be the effect of discontinuing the profitable export trade. Is not that the point at which it would affect public opinion?

Mr. WHITNEY. I do not know, but the record, Senator Vandenberg, shows that here the American public had interpreted this ruling by the Federal Reserve Board to say: "You must not buy any more of these bonds."

If that were the attitude, obviously, if the British could not get any more credit, and a week before they stated they did not want to dissipate their gold and securities, therefore they would have to change their manufacture and purchasing of supplies. That is in the record.

Senator CLARK. That was the way they were going to influence public sentiment and change the policy of the Government, was it not?

Mr. WHITNEY. I do not think so at all.

Senator VANDENBERG. It seems to me we are where Mr. Lamont and I were discussing the thing the other day. You have now reached a point where there is a danger of interrupting this domestic prosperity which flows out of war orders, and you do not want to see that stopped, do you?

Mr. LAMONT. Not unnecessarily, Senator.

Senator VANDENBERG. You have to keep the war going in order not to interrupt it.

Mr. LAMONT. Oh, no; excuse me.

Senator VANDENBERG. Wait a minute.

Mr. LAMONT. Yes, sir.

Senator VANDENBERG. You have to keep a policy going which permits us to participate in the war without being in it?

Mr. LAMONT. Of course I would not endorse that statement.

Senator VANDENBERG. That is the net result of the operation. We participated in this country by furnishing the munitions, the arms, and the implements, and loaning the money, but we are neutral and are not partners in the war itself.

Mr. LAMONT. Senator, we would have to go back a long time, at the very outset of the war, when we were in a depression, and when it was very important for our country to get out of the depression, and we owed a lot of money over there, and we were a debtor nation, and the whole country delighted at the opportunity of selling goods abroad; there is no doubt about that.

Senator VANDENBERG. I agree with that absolutely. I say again and again, if we could only look at the thing objectively and try to get a lesson out of it, and not trying to pin any responsibility on any individual for doing something we did; but I am trying to find out if objectively we cannot learn a lesson. It seems to me we are back where we were the other morning. We were engaged in a profitable export trade, which is dependent upon abnormal conditions. The moment the abnormal conditions cease, the abnormal profit ceases. That is the reason why I think it is of no advantage to the country to have that abnormal trade.

In addition, it seems to me now, being confronted with that condition, that we know the American people enjoyed this abnormal trade and appreciated the profit from it so thoroughly that if they are notified that it is going to be suspended, that they will want to do something about it to keep it going. Is not that precisely the situation?

Mr. LAMONT. As long as the trade is going on, certainly the American people would like to get their share of it; no doubt about that.

Senator VANDENBERG. Supposing the war itself had stopped at that moment, and it had been cut off, what would have happened to this industrial activity? It would have all been suspended, would it not?

Mr. LAMONT. It would have tailed off. There is no doubt about that.

Senator VANDENBERG. It would have kept on going?

Mr. LAMONT. There were contracts which had to be fulfilled. There would be an immediate cessation of orders, I hope.

Senator VANDENBERG. Of course there would be.

Mr. LAMONT. Certainly.

Senator VANDENBERG. The net result of that would have been the precise situation against which this is in effect a complaint. You are trying, as I read this, to interest the American people in protesting against a situation which interrupts their flow of war orders. That is a fair interpretation, is it not?

Mr. **Lamont**. You elaborated that, I think, more than it was elaborated in our minds at the time. As Mr. Whitney stated, undoubtedly we felt that if there had to be a curtailment for some of the reasons which are in your mind, still the American people knew about it. There is no doubt about that.

Senator **Vandenberg**. I think that is true, but I do not see how you escape the final conclusion that there is whipped up by this trade a popular attachment to the maintenance of war conditions, and I do not see how you can separate that out from war trade. That is the reason why I have not any interest in the war trade.

Mr. **Lamont**. Of course, if you mean, Senator Vandenberg, maintenance of war conditions to the point of wanting the war to continue, I would think we must agree that is a fact, but as long as the war is continuing, America wanted to get her share of it.

Senator **Vandenberg**. Precisely. I would not say for a moment that you wanted the war to continue.

Mr. **Lamont**. Right.

Senator **Vandenberg**. But I am saying, that you find yourself in the position where the continuation of the war is of interest to you and to all the people who are participating in it, and human nature is such, it seems to me, that that inevitably affects the processes of thinking with respect to this country's attitude toward the whole situation. I do no see how you can escape it.

Senator **Clark**. Mr. Whitney, a moment ago you took exception to my statement that the curtailment of foreign trade would be employed to influence public sentiment in this country, and it seems to me that the effect of that statement is explicitly set out in your cablegram. It says [reading from "Exhibit No. 2609"]:

> Every effort, as you must realize, will be made by us and our associates, by educational processes, to counteract throughout the country statement just issued, but we have got to begin at the bottom of the hill once more and it will be a long, slow process with very much depending upon future attitude of our authorities. Meanwhile we can see no way except for your authorities to consider ways and means for immediate curtailment of purchases, letting such action be announced without rancour but explicitly with possible good effect upon American attitude.

If that does not mean that you have got to apply the curtailment of British purchases to create sentiment in this country for reversing the Federal Reserve Board's action, what does it mean?

The **Chairman**. That is the question.

Senator **Vandenberg**. It seems to me it must mean that.

Mr. **Whitney**. Senator Clark, the first part of what you read has, I should think, almost direct reference to the second affirmative statement which Mr. Raushenbush read from the Federal Reserve Board statement, which was to the effect that the private investors should not buy these particular unsecured loans, without receiving full and authoritative data, so that he may judge the future intelligently in the light of present conditions. In other words, education.

Now, we come along and come back to this " rancour " thing again.

Senator **Clark**. I made the statement a while ago that your advice to the British to apply pressure in connection with curtailment, or threatening curtailment of purchasing in this country, was to create sentiment in this country to reverse the Federal Reserve Board's position, and you took exception to it and said it was not, but I cannot read this language in any other way [reading from "Exhibit No. 2609"]:

> Meanwhile we can see no way except for your authorities to consider ways and means for immediate curtailment for purchases, letting such action be announced without rancor, but explicitly, with possible good effect upon American attitude.

I ask again, if that does not mean what I said, what does it mean?

Mr. WHITNEY. I think the only difference between us, Senator, is perhaps the question of where you put all the emphasis. You use the word "threat."

Senator CLARK. I will drop out the word "threat", and adopt the modification of what you say there, that this was advocating a curtailment and not threatening.

Mr. WHITNEY. I do not believe you were here, Senator Clark, when Mr. Raushenbush or I put in a cable from the Chancellor to Mr. Morgan, to the effect that if he did not secure an unsecured loan here, he would have to curtail. As a matter of fact, we did receive from the Department of Commerce, which you introduced today, a document showing that they had it in mind about this time.

Senator CLARK. That is perfectly true, Mr. Whitney, but what you were saying was to give it out explicitly, and was it not for the purpose of bringing about an effect on the position of the Administration?

Mr. LAMONT. Senator Clark, to avoid further debate, I should think we would have to permit you to draw whatever inference you please.

Senator CLARK. That is precisely what I am doing, Mr. Lamont.

Mr. LAMONT. Just a moment, Senator. Whatever inference you please, with a statement on our part that we had no such elaborate lucubration in our minds at the time; it was a simple offhand statement.

Senator CLARK. All I am asking you is what you mean by that simple offhand statement, if it does not mean what I have drawn from it.

Mr. LAMONT. I am not going to try to interpret everything I said 20 years ago, cabled in the midst of a lot of hurry, as I said this morning.

Senator CLARK. It is a simple, concise statement as to how to bring pressure to bear in this country.

Mr. WHITNEY. As a matter of fact, they made no such announcement did they?

Senator CLARK. I am not discussing your advice to them and the question of whether they accepted your advice.

Mr. RAUSHENBUSH. Because they did not need to.

Mr. LAMONT. All you and I are interested in, Senator Vandenberg, is the trade matter; and I do not want to prolong the debate on the other point, but what puzzles me is to see what course this country could have taken, other than the course it did take from 1914 on in the way of selling goods, because the minute a war starts, as you know, the purchases of the belligerent nations are not normal purchases.

Senator VANDENBERG. That is correct.

Mr. LAMONT. They are in a different situation. Therefore, if our country had not responded to the particular demands and particular goods that the belligerents wanted, we should not only have stayed in the original depression in which we were, but we should have lost our normal export trade to those fellows.

So that the country was faced with a dilemma as to whether it should fill orders if they came in; if heavy orders came in to fill the orders, and if they came in light to fill the light orders. It seems to me that is all there was to it.

Senator **Vandenberg**. I will just make this comment upon your suggestion:

In the first place, I think, with great respect, it is a fallacy ever to discuss neutrality problems and war situations in the light of pulling ourselves out of a depression. That, at the outset, it seems to me, is a horrible fallacy, because if we are going to try to run our foreign policy for the purpose of fertilizing our domestic economy, why, our foreign policy will be a thoroughly selfish and hazardous sort of thing.

You say, what could we have done? We should have done precisely the thing that is being proposed at the present time before the Foreign Relations Committee. We should have completely embargoed the shipment of all arms and munitions of war to all belligerents, which would have been a neutral act, instead of one in theory, and we could have protected our normal commerce by the quota system, which Secretary Hull is suggesting, and beyond the quota by establishing the embargo, we could have prevented all the argument respecting this abnormal trade, and, from my point of view, all the hazard of deflation, using the term industrially rather than financially, which was inevitable after this extraordinary system had to be thrown into the discard.

Mr. **Lamont**. I think the proposals before the Foreign Relations Committee are of very great interest and of the utmost importance to this country today.

If you will permit me, in a day or two, before the hearing is adjourned, I should like, with great respect, perhaps to submit some observations more at length on the matter for your consideration, rather than attempt to give them by word of mouth now.

Senator **Vandenberg**. I would be delighted to have anything that you have to offer on the subject, with or without respect.

Mr. **Lamont**. Thank you, Senator.

Mr. **Raushenbush**. Going on with this transaction, we complete the record by putting in a cable dated November 28, 1916, to Harjes, in which Harjes is informed that—

> any attempt now to forecast time for another operation, whether secured or unsecured, is impossible. We will keep you in touch with the situation, but regret to say we regard it as more difficult and ominous than ever before.

(The document referred to was marked "Exhibit No. 2610", and is included in the appendix on p. 8739.)

Mr. **Raushenbush**. Cable from Morgan in London dated November 28, 1916, in which Grenfell says he is awaiting further announcement from you as to effect which announcement had upon existing loans, short paper, and commercial acceptances.

(The document referred to was marked "Exhibit No. 2611", and is included in the appendix on p. 8740.)

Mr. RAUSHENBUSH. On November 28, 1916, a telegram in code to be sent to attached list of names; showing the rates for delivery of bills, and a list of names is attached.

(The document referred to was marked "Exhibit No. 2612", and is included in the appendix on p. 8740.)

Mr. RAUSHENBUSH. You were still planning to issue them at that time, were you not, after having gotten the announcement?

Mr. LAMONT. We said, I think, that we might have them on the counter for sale, something like that, was it?

Mr. RAUSHENBUSH. This telegram to these various banks just gives the rates on November 28, the day after the announcement.

Mr. LAMONT. We were awaiting further word from the other side.

Mr. RAUSHENBUSH. Did you ask for further word?

Mr. WHITNEY. No; but we had agreed with these banks we were going to offer. We had to go along more or less as a routine matter, because we had made the arrangements for the offer on December 1.

Mr. RAUSHENBUSH. On November 29, 1916, there is a cable from Morgan's in London, stating [reading from "Exhibit No. 2613"]:

> British Government is communicating upon the subject with Sir Cecil Spring-Rice.
>
> Whilst I have impressed upon the Ministers the fact that the Federal Reserve Board is not directly a Government committee, yet our Ministers adhere to their view and consider it more dignified to take action in concert with the other Allied Governments.
>
> Your statement that the British and French Treasury Bills will not sell to any extent is not the main factor in the Government's decision.

Then later on in that same telegram [reading from "Exhibit No. 2613"]:

> Four. I fully understand that J. P. Morgan & Co., cannot go on advancing indefinitely themselves, but wish to know if there is any difficulty in your getting accommodation against American securities from other banks.

Then there is some information on gold.

Mr. LAMONT. Would you mind just quoting, Mr. Raushenbush, from that gold cable, "he states——"

Mr. RAUSHENBUSH. Which part?

Mr. WHITNEY. In all, $337,000,000 of gold was available. That is the summarization.

Mr. RAUSHENBUSH (reading):

> In all, $337,000,000 in gold.

Mr. LAMONT. Then the rest of it, "he states——"

Mr. RAUSHENBUSH (reading):

> He states you have $150,000,000 free American securities with further $255,000,000 which he hopes to release from the securities pledged under collateral loans.

Is that correct, that on November 29, you had $150,000,000 free American securities?

Mr. LAMONT. I do not know.

Mr. WHITNEY. That is his statement.

Mr. LAMONT. It is probably easy enough to check up.

Mr. RAUSHENBUSH. It does not check at all with our figures.

Mr. BROWN. There is a later cable that says you have only $15,000,000.

Mr. **Whitney**. That is his statement. That is just the time when we were transferring securities from the different schemes. This is his statement, it is not ours, and I have never checked it.

Mr. **Raushenbush**. I take it I was asked to read that because of the exorbitant amount. If it is only $15,000,000, I would like to have that checked.

May we have that inserted in the record?

(The document referred to was marked "Exhibit No. 2613" and is included in the appendix on p. 8741.)

Mr. **Raushenbush**. Cable of November 29, 1916, when the Chancellor of the Exchequer sent you the following message:

> In view of the attitude of the Federal Reserve Board toward the issue of Treasury bills by us in the United States of America, I am now telegraphing to Monsieur Ribot, French Minister of Finance, that we propose, if he concurs, to refrain from proceeding with the issue.

The document referred to was marked "Exhibit No. 2614" and is included in the appendix on p. 8742.)

Mr. **Lamont**. That was a very clear-cut action.

Mr. **Raushenbush**. If Ribot concurs.

Cable of November 29, to Morgan, London. It is your acknowledgment.

(The document referred to was marked "Exhibit No. 2615" and is included in the appendix on p. 8742.)

Mr. **Raushenbush**. Another cable, dated November 29, 1916, to Harjes in Paris.

(The document referred to was marked "Exhibit No. 2616" and is included in the appendix on p. 8742.)

Mr. **Raushenbush** (reading):

> It is necessary that immediately you should cable M. Bloch and ourselves authorizing him to sign.

There is nothing in that cablegram, as you notice, about Ribot's concurring in the refraining from proceeding with the issue. On the other hand, there is a cable dated November 30, 1916, in which Mr. Ribot cables authorization to go ahead.

(The document referred to was marked "Exhibit No. 2617" and is included in the appendix on p. 8743.)

Mr. **Raushenbush**. I now want to turn, Mr. Chairman, again to Mr. Hamlin, who is writing very interesting things in his diary at this time.

On November 29, which is the same day that the formal authority to refrain was received, Mr. Hamlin reports a conversation with Spring-Rice, British Ambassador at the time.

> Spring-Rice says great excitement in England over warning. C. S. H.—

that is Mr. Hamlin—

> said it was purely an internal banking matter not aimed at any foreign government.
>
> Advised him to ask permission of Lansing to talk with Harding.

Then a little later:

> Said he should cable his Government that it was a purely internal bank matter.
>
> C. S. H. said to cable nothing until his talk with Lansing and Harding.
>
> Morgan announces loans will be made notwithstanding warning.

So on the 29th, 2 days after the statement, Spring-Rice has gone to Mr. Hamlin and Mr. Hamlin has told him that he ought to see Lansing and ought to see Harding.

We have already had the cable in here that Spring-Rice was being consulted by the British Government on the matter.

Then on December 1, Hamlin notes that—

> Harding said he had very satisfactory talk with Sir Richard Crawford yesterday.

So it would appear from that, Mr. Chairman, that the source of the information is the diplomatic influence which the British Government had over here. The British Ambassador had gone to the Federal Reserve Board to get inside information, if you will, and Hamlin had told him as clearly as he could what he should do, he should ask the diplomatic permission of Lansing to talk with Harding, and warned him several times not to cable without doing that, from the angle we were interested in before.

On the evening of November 30 a telegram was dispatched to Morgan, London, saying [reading from "Exhibit No. 2618"]:

> Before formally withdrawing Treasury bills from sale we will await word from you that Ribot concurs. We then suggest making announcement, and propose for your consideration a form substantially as follows:

Did you ever get word that before your announcement was made you were withdrawing the French had concurred in that?

Mr. **Whitney**. You did not read the other cable of November 30, did you, no. 26827, in which the Chancellor requests J. P. Morgan & Co. not to issue Treasury bills as arranged on December 1?

Mr. **Raushenbush**. I would be glad to read that [reading from "Exhibit No. 2619"]:

> Chancellor would not wish to disregard the expressed wishes of the Federal Reserve Board of which Secretary of Treasury is a member and, therefore, requests Messrs. J. P. Morgan & Co. not to issue the Treasury bills as arranged on December 1. Former is statement made to me by Chancellor of the Exchequer. Will this provide basis for any explanation you may have to make?

That still does not answer my question, Mr. Whitney, about whether you had gotten a concurrence or the specific approval of the French before you withdrew them.

Mr. **Whitney**. No; but does not that instruct us not to sell the British?

Mr. **Raushenbush**. I offer all that for the record.

(The documents referred to were marked "Exhibits Nos. 2618, 2619, and 2620", respectively, and are included in the appendix on pp. 8743 and 8745.)

Mr. **Lamont**. The answer to Mr. Raushenbush is "no"; we did not receive directly the authorization from the French, but having that strong statement on the part of the Chancellor of the Exchequer that he would not want to do anything not consistent with the wishes of the Federal Reserve Board, and having word that he was communicating with Mr. Ribot, we proceeded to withdraw both classes of bills.

Mr. **Raushenbush**. Without any formal agreement from the French. All right.

I offer for the record a telegram dated December 1, 1916, to Harjes, describing the situation.

(The document referred to was marked "Exhibit No. 2621" and is included in the appendix on p. 8745.)

Mr. RAUSHENBUSH. Telegram from Paris dated December 4, 1916, for H. P. Davison and T. W. Lamont.

(The document referred to was marked "Exhibit No. 2622" and is included in the appendix on p. 8746.)

Mr. RAUSHENBUSH (reading from "Exhibit No. 2622"):

> Ribot is greatly upset over your action in this matter and is quite unable to understand how you took upon yourselves to speak authoritatively for him as you did without even getting his views upon the subject, let alone his consent.

Telegram dated December 9, 1916, continuing the discussion about Ribot's being disturbed, and your regrets.

Mr. LAMONT. December 9?

Mr. RAUSHENBUSH. These are just making a record. I have no comment.

(The document referred to was marked "Exhibit No. 2623" and is included in the appendix on p. 8747.)

Mr. RAUSHENBUSH. I offer a cable from Harjes, Paris, dated December 11, 1916.

(The document referred to was marked "Exhibit No. 2624" and is included in the appendix on p. 8747.)

Mr. RAUSHENBUSH (reading):

> Ribot thanks you for the message contained in your 14965, and he hopes you will consider the whole incident as closed.

Then, Mr. Chairman, it develops that back in October, Kuhn, Loeb & Co., had been negotiating in regard to a German municipal loan. We want to offer some cables exchanged between Kuhn, Loeb & Co., and Germany, regarding the issuance of bonds of the cities of Hamburg, Frankfort, and Berlin, which I offer at this time for the record.

(The document referred to was marked "Exhibit No. 2625" and is included in the appendix on p. 8748.)

Mr. RAUSHENBUSH. This issue was dropped, it is indicated in a letter of December 12, because of the Federal Reserve Board ruling.

GERMAN LOAN BLOCKED BY PRESIDENT WILSON

Mr. RAUSHENBUSH. Then we find a letter of November 23, which is still before the warning, from House to the President, in which he says (reading):

> Baruch tells me that Kuhn, Loeb & Co. are preparing to make a loan to the German cities just as they did some time ago to the French cities. Before doing it they want to be sure that our relations with Germany are satisfactory, otherwise they will refuse to go on. I am wondering what, if anything, you want done in regard to this.

(The document referred to was marked "Exhibit No. 2626" and is included in the appendix on p. 8749.)

Mr. RAUSHENBUSH. Mr. Chairman, I was not here this morning, but as I remember that neutrality picture the relations with Germany were quite satisfactory in November.

The CHAIRMAN. At that time they were.

Senator CLARK. November 1916?

Mr. RAUSHENBUSH. Yes.

Senator CLARK. More satisfactory than they had probably been at any time during the war.

Mr. RAUSHENBUSH. Then there was the reply from Wilson to Colonel House dated the 24th of November. This is still before the warning.

(The document referred to was marked "Exhibit No. 2627" and is included in the appendix on p. 8750.)

Mr. RAUSHENBUSH (reading):

> MY DEAREST FRIEND: I have had a really overwhelming cold during nearly the whole of the week, and it has sadly thrown my plans out. The paper I had intended to write needed the clearest thinking I could do, and not until tonight have I ventured to begin it. Even now I have gone no further than a skeleton outline.
>
> I wanted to make these suggestions:
>
> First. That you convey to Kuhn, Loeb & Co. through Mr. Schiff, who would be sure of my personal friendship, the intimation that our relations with Germany are now in a very unsatisfactory and doubtful state, and that it would be most unwise at this time to risk a loan.
>
> Second. That you write to Lord Grey in the strongest terms to the effect that he could be sure that the United States would go any length in promoting and lending her full might to a league of peace, and that her people were growing more and more impatient with the intolerable conditions of neutrality, their feeling as hot against Great Britain as it was at first against Germany and likely to grow still hotter against an indefinite continuation of the war if no greater progress could be shown than now appears, either for the Allies or the Central Powers.
>
> It might be well to intimate to him that Page no longer represents the feeling or the point of view of the United States any more than do the Americans resident in London.
>
> I hope that these suggestions commend themselves to you. I do not think that he ought to be left in any degree of ignorance of the real state of our opinion. It might even be well to intimate that we, in common with the other neutral nations, look upon the continuation of the war through another winter with the utmost distaste and misgiving.

I regret I was not here this morning, but when he wrote that letter on November 24 can you state whether he had at that time in his hands the retaliatory powers that had been passed to embargo the loans and the like?

Senator CLARK. Yes; he had retaliatory powers, but further than to ask the Department of Commerce for an opinion as to most effective way to use them nothing whatever was ever done with the retaliatory powers. They were in full force and effect at that time.

Mr. RAUSHENBUSH. Yet this letter seems to indicate that at that time he is very thoroughly fed up with what he calls the intolerable things that have been happening here.

Mr. CLARK. The part that was given in the Revenue Act and in one of the other acts passed in September 1916 was entirely discretionary rather than mandatory, and nothing whatever was ever done with the retaliatory powers.

Mr. RAUSHENBUSH. Just reading this language by itself I get the idea that he had sufficient cause to impose those powers if he felt the country was with him on it.

Mr. CLARK. He had sufficient powers if he felt that he should impose them. There is no question about his power.

Mr. RAUSHENBUSH. Then I want to offer for the record a copy of Colonel House's diary of December 3, reporting a conversation with Jusserand.

(The document referred to was marked "Exhibit No. 2628" and is included in the appendix at p. 8750.)

Mr. **Raushenbush.** In that he says that he told the French Ambassador [reading]:

> That we were trying to undo the harm which the Federal Board had done regarding their credits.
>
> The United States has practiced benevolent neutrality toward the Allies which the Allies in no way appreciated. We had gotten the enmity of Germany and had not received corresponding benefit from the Allies.

Then a cable from J. P. Morgan to Morgan in London, dated December 21, 1916. This must have been after the peace announcements.

(The document referred to was marked "Exhibit No. 2629" and appears in full in the text.")

Mr. **Raushenbush.** (reading):

> 33653. For E. C. Grenfell. Distressed and mortified beyond measure by the President's pronouncement of this morning which seems to indicate that he has no appreciation of the difference between the conduct of the Allies and of the Central Powers. It seems that realizing that he had made a mistake in putting it out, he tried to correct it by Lansing's statement, which has rather made matters worse. Do not forget, however, in talking about it, that what the President says does not change the feeling of the country, which I still believe is more than 90 percent pro-Ally, and I think will continue so.

Mr. Morgan, are you right there when you say "the President's pronouncement of this morning?" Is that his request to the powers?

Mr. **Morgan.** I was just trying to get a copy of it.

Mr. **Raushenbush.** I am told that that was the date of the request for the peace terms.

Mr. **Morgan.** That was the suggestion of the peace terms, yes; when he asked for the peace terms [reading]:

> He takes the liberty of calling attention to the fact that the objects which the statesmen of the belligerents on both sides have in mind in this war are virtually the same, as stated in general terms to their own people and to the world. Each side decides to make the rights and privileges of weak peoples and small states as secure against aggression and denial in the future as the rights and privileges of the great and powerful states now at war,

and so on.

That is the statement, yes. I remember it.

Mr. **Raushenbush.** That was the one that distressed and mortified you beyond measure?

Mr. **Morgan.** Yes, it did; and I meant nothing else besides what I said.

Mr. **Raushenbush.** If it could only be clear what you ever meant, Mr. Morgan.

Then a telegram of December 22 for J. P. Morgan from Grenfell.

(The document referred to was marked "Exhibit No. 2630" and is included in the appendix on p. 8751.)

Mr. **Raushenbush** (reading):

> The President's message has, of course, created a great deal of feeling here. The Treasury would be greatly obliged if you could cable your views as to how far the President's action will affect chances of a collateral loan in January.

To which you replied on December 22, 1916, the same day, as follows [reading "Exhibit No. 2631"]:

> 33707. 28497. For Grenfell. Am increasingly impressed with the idea that President's message will do no harm to the prospects of collateral loan; indeed, the liquidation produced and reduction of loans might make it a little easier. The whole thing depends on the money market. Banks in the West are carrying large reserves for which they cannot find use in their own parts of the

country. The course heretofore has always been to remit such funds to New York for temporary employment there. This, I think, is bound to occur again, though this year the tendency of money to New York has not developed quite as early as usual. J. P. MORGAN.

(The document referred to was marked "Exhibit No. 2631" and appears in full in the text.)

Mr. RAUSHENBUSH. You thought that the President's message would do very little harm to the prospects of a collateral loan. There is no discussion at this time any more of an unsecured one, is there? That is offered, is that right?

Mr. MORGAN. The prospects of a collateral loan we thought were better than those of an unsecured one, obviously.

Mr. RAUSHENBUSH. That was the only one that was up for discussion at the moment?

Mr. MORGAN. That was the only one that was up for discussion at the moment.

Mr. RAUSHENBUSH. You did not think the peace terms would hurt that.

Then on December 26 the Federal Reserve Board changed their previous ruling on the Bank of England credit that had been under negotiation for so long.

Mr. Chairman, I want to offer a memorandum from their executive committee dated November 23, 1916, with the changes which were put out in December for the record, allowing that loan to go through.

Mr. WHITNEY. The Bank of England loan, Mr. Raushenbush? Did you say "Bank of England loan"?

Mr. RAUSHENBUSH. Yes. I am just reading into the record the contract between the Federal Reserve Bank of New York and the Bank of England.

Mr. WHITNEY. I thought you said a loan; excuse me.

(The document referred to was marked "Exhibit No. 2632", and is included in the appendix on p. 8751.)

Mr. RAUSHENBUSH. On December 29, then, a cable to Harjes on the matter.

(The document referred to was marked "Exhibit No. 2633", and is included in the appendix on p. 8752.)

Mr. RAUSHENBUSH (reading):

> Announcement is correct but matter is almost simply routine as Federal Reserve Bank of New York City applied sometime ago for permission appoint foreign agents. I think it quite probable Federal Reserve Board thought it was indicating pleasanter feeling by doing this now. Indeed, I think they feel they went much too far and did the wrong thing in the statement of November 28 and are casting about for ways of improving their position.

Mr. Chairman, we had hoped to go into far more of these complications tonight, but if we once get started we will probably want to keep going quite a while.

The CHAIRMAN. You could not in a matter of 15 or 20 minutes round up any matter that remains before us?

Mr. RAUSHENBUSH. No.

The CHAIRMAN. We will recess until 10 o'clock tomorrow morning.

(Thereupon, at 4:55 p. m., the Committee adjourned, to meet again tomorrow morning, Thursday, Jan. 16, 1936, at 10 a. m.)

INVESTIGATION OF MUNITIONS INDUSTRY

THURSDAY, JANUARY 16, 1936

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in the Caucus Room, Senate Office Building, pursuant to adjournment, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Vandenberg, Barbour, and Pope.

Also present: Stephen Raushenbush, secretary, and Lawrence Brown, financial assistant to Committee, and Robert Wohlforth, assistant to the secretary.

TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, AND GEORGE WHITNEY—Resumed

The Chairman. The committee will be in order.

Mr. Brown. Mr. Chairman, at the opening this morning I just might run over a brief summary of the concluding session yesterday afternoon in regard to the proposed issue of British Treasury bills, whose issuance was blocked by the announcement of the Federal Reserve Board at the end of November 1916.

The record shows that this announcement of the Reserve Board was made at the direct instigation of President Wilson, and that, according to Mr. Hamlin's diary, this was because the President desired to keep the banks liquid in case there should be any change in our foreign policy.

The record further shows that the British Ambassador, Sir Cecil Spring-Rice, was told that this announcement by the Reserve Board was the direct work of President Wilson, and that he cabled this fact to Great Britain.

The record shows that J. P. Morgan & Co. had first thought that the Federal Reserve Board announcement was the worst blow ever received to Allied credits.

At the conclusion yesterday we were discussing putting in the record various evidence in regard to what the President's motives may have been, what he had in mind in the phrase "A change in our foreign policy."

The Chairman. Mr. Brown, let us get clear in our minds, if we can, just what the conditions were surrounding that Federal Reserve order.

Is the record one that would seriously point out that the President at the time of the order was actually contemplating the moment of our moving into war, and was wanting the banks to get in shape in such liquid position that they would be ready to function from the standpoint of our needs once we went in?

Mr. BROWN. So far as the record shows, Mr. Chairman, I can say that is a matter on which each person must draw his own conclusions. I would hesitate to say that there was any definite evidence on that, one way or the other.

The CHAIRMAN. What was the date of that order?

Mr. BROWN. The 27th of November.

The CHAIRMAN. Mr. Morgan or Mr. Lamont, either, can we have a direct picture from you at this time as to whether or not there was any understanding in November of 1916 that we were getting in shape to meet that possible emergency which would exist in case we went to war?

Mr. MORGAN. Personally, not that I know of at all.

The CHAIRMAN. You had no such picture at that time?

Mr. MORGAN. None at all.

The CHAIRMAN. Mr. Lamont?

Mr. LAMONT. You mean, understanding on our part, Senator?

The CHAIRMAN. Yes; if on the part of the banking profession there had been given any cause to believe that we were getting ready to get in and that this reserve order had that in mind.

Mr. LAMONT. Not the slightest, Senator. On the contrary, I think that the country was impressed during that whole autumn with the fact that the difficulties with Great Britain on matters of contraband, and so forth, were very considerable, and, as has been indicated here, the feeling temporarily swung away from the Allies quite distinctly.

Mr. WHITNEY. It was not long after an election which had had as at least one of its objects to keep us out of war.

The CHAIRMAN. Yes. Of course, the election is out of the way at the time this order comes along.

Mr. WHITNEY. About 10 days or 2 weeks.

The CHAIRMAN. The Wilson and State Department papers rather indicate that through November and December there was decided opinion in Administration circles that we were going to have to get in.

Mr. LAMONT. The House diary, you recall, Mr. Chairman, as late as January 4, quotes President Wilson as saying this:

> There will be no war. This country does not intend to become involved in this war. We are the only one of the great white nations that is free from war today, and it would be a crime against civilization for us to go in.

That is on January 4, just about a month after the Federal Reserve note.

Mr. BROWN. We have another diary entry the same day that we will come to in a moment, Mr. Lamont, upon which a quite different interpretation can be placed.

Mr. Chairman, we have seen that despite the formal excellence of our relations with Germany at that time and the official unexcellence, if I may say so, of our relations with Great Britain, the record shows that in November, President Wilson directly intervened to prevent the flotation of a German loan in the New York market.

We have also seen that the Administration, in the Federal Reserve Board announcement, desired to keep the banks from investing in what it considered unliquid Allied paper, but it wished very ardently to take off any reflection upon Allied credit at the same time, and by means of various unofficial announcements, and particularly by means of the reversal of the Reserve Board's position in regard to the agreement between the Bank of England and the Federal Reserve Bank of New York, the Administration went as far as it thought it could in taking the sting off the Federal Reserve Board announcement.

In other words, the record shows that the Administration desired to keep the banks liquid but did not desire to slap the Allies.

Mr. Hamlin's diary shows that not only President Wilson but Secretary Lansing was one of the moving spirits in the Reserve Board announcement.

DISCUSSION OF SUBMARINE ISSUE

Mr. **Brown**. As a further comment on what Secretary Lansing's point of view and motives may have been in that announcement, I offer for the record a diary entry of Colonel House dated January 4, 1917.

(The document referred to was marked "Exhibit No. 2634" and appears in full in the text.)

Mr. **Brown** (reading "Exhibit No. 2634"):

> Lansing desires the President to press the submarine issue and to send Bernstorff home. He has written the President a note urging him to take a firm stand. He believes the President will not do this as the President told him the other day that he did not believe the people of the United States were willing to go to war because a few Americans had been killed.

The significant point, however, is that Lansing desires the President to press the submarine issue and to send Bernstorff home.

Mr. Lamont, do you recall if there was any submarine controversy at that time with Germany?

Mr. **Lamont**. No; I do not recall, except, of course, the submarine controversy was a continuous one, with merely let-ups in between the different submarine outrages, was it not?

Mr. **Brown**. The *Sussex* pledge had been in force ever since the spring of 1916, had it not?

Mr. **Lamont**. I do not recall the exact date, Mr. Brown.

Mr. **Brown**. It was sometime after the sinking of the *Sussex*, was it not, that the agreement was made that the Germans would not sink without warning, and that agreement had been kept and was being kept on January 4, was it not?

Mr. **Lamont**. I do not recall the exact date.

Mr. **Brown**. You have made statements in the course of the hearing that the cause of the war was the submarine, so I thought you would probably be familiar with the details of that.

Mr. **Lamont**. I am not familiar with the date of every submarine outrage, of course.

Mr. **Brown**. Was not the official breach in relations, the official quarrel with Germany, the note of January 30, on the resumption of unrestricted submarine warfare? Is not that what all historians declare to be the cause of our entry into the war?

Mr. **Lamont**. That was the final straw that broke the camel's back, of course.

Mr. **Whitney**. Of course, we know now, Mr. Brown—we did not know then—that on the 9th of January the German Crown Council at Spa decided to resume immediately unrestricted submarine warfare on February 1.

Senator **Clark**. The United States Government, as I pointed out yesterday, had received repeated warnings that that was going to be done unless they could compel the Allies to respect international law in regard to armed merchantmen and the illegal blockade which the United States as well as Germany had contended the Allies had been putting into effect.

Actually, of course, there had been a discussion which at various times threatened the fall of the German Government; that is, had threatened the ousting of the Chancellor, who was opposed to the unrestricted submarine warfare.

But the United States Government had received repeated warnings: In the *Sussex* note from Germany; from the American Ambassador to Germany; and at another time from the Acting American Ambassador to Germany; another time from the American Charge d'Affaires in Germany; and another time from the American Ambassador to Turkey—that this was going to happen and would necessarily have to happen unless the United States compelled or induced the Allies to respect their construction of international law.

So that while Mr. Lamont says it was the final straw that broke the camel's back, it was simply a thing that Germany had warned would happen, in the original *Sussex* note, unless the United States then took steps, as they had originally against Germany, to compel respect of their position by the Allies.

Mr. **Lamont**. Yes; but Senator Clark, on the other hand, even von Bernstorff in his book, regarding the *Sussex* note says that:

> After this note it is obvious that there was no longer any doubt in Berlin, that persistence in the point of view they had hitherto adopted would bring about a break with the United States, for I received instructions to make all preparations for German merchant ships lying in American ports to be rendered useless by the destruction of their engines.

Again, Secretary of State Albert, in a memorial directed to Secretary of State Helfferich, in November 1916, said:

> I can unhesitatingly announce my opinion that the loss of American lives as the result of torpedoing a ship without previous warning and without provisions being made for the safety of the passengers, would mean war with the United States.

Senator **Clark**. There is certainly nothing inconsistent in what you just read with the statement I just made.

Following the *Sussex* incident, the German Government notified the United States that they were prepared to go back to the old rules of visit and search which had applied to navigation before the days of submarines.

It was decided in view of the illegal British practice of arming merchantmen and instructing them to attack and ram submarines on sight, that "We must necessarily reserve to ourselves freedom of action unless you compel the British or the Allies to respect also the new developments of international law."

I dare say that the German officials regarded it as probable that they would have to go back to the unrestricted submarine warfare, because their whole experience with the United States Government since the outbreak of the war had been that as to British violations of international law or French violations of international law, the United States would mildly protest and then, as Secretary Lansing says, "Bury it in a sea of verbosity" and then allow it to slide off.

Mr. BROWN. Furthermore, Mr. Lamont, this diary entry does not suggest that the Germans pressed the submarine issue. That was always in the offing. As long as the Germans lived up to the *Sussex* pledge, officially our relations were excellent.

This diary says:

> Lansing desires the President to press the submarine issue.

In other words, Lansing desires the President to make an issue where there is no issue at the moment. There is always a potential issue if the Germans violate the *Sussex* pledge, but there is no issue at this time unless the President makes one.

Mr. LAMONT. Mr. Brown. Are you attempting to get us to agree with you, if that is your point of view, that the Germans were justified in their attitude? Is that it?

Mr. BROWN. I am not taking up any question of justification. I am merely pointing out that under an informal agreement between the two governments, the *Sussex* pledge, our relations were officially excellent with Germany.

Everyone knew that this was a precarious situation that might not last, as Senator Clark has pointed out; it always was threatened with collapse.

But at this particular time Mr. Lansing, who was instrumental in this Reserve Board announcement that you thought was such a blow to Allied credit, is a man who here is shown to be not desirous merely to stand by the *Sussex* pledge, but he himself to break it.

Mr. LAMONT. But you are reading a lot of papers that have turned up since the war. As I understood your question, Mr. Brown, it was what we thought at that time was the status of the submarine question.

It seems to me that Senator Clark answered your question entirely, that as far as the public knew the relations, we were resting on the *Sussex*.

Of course, it is true that there had been repeated warnings by the Germans that if the British situation was not cleared up, they would have to resume.

But you asked us, I thought, what we thought about it. We did not know of all these papers at the time.

Mr. BROWN. I asked you, not what you thought about it then, I asked Mr. Lamont in passing what he thought about it now, because he has said so frequently that the submarine was the sole cause of the war. I thought we might have a little more historical light.

I wished the record to show that one of the men who was chiefly responsible for this Reserve Board announcement was the man who was very desirous of getting the country into the war.

Mr. LAMONT. Mr. Brown, I do not want to prolong this and take the valuable time of the Senators, but I never said that the submarine was the sole cause of the war. I said that it was the chief cause of the war, both fundamentally and immediately, and I still believe that that is the case. I believe that if Germany had not insisted upon continuing to blow up our ships, if she had not gone back on her *Sussex* pledge——

Senator **Clark**. I do not mean to interrupt you, but it is not fair to say she went back on her *Sussex* pledge.

Mr. **Lamont**. She withdrew it.

Senator **Clark**. She gave warning in the *Sussex* note as to what she was going to do unless the United States compelled England to respect international law.

Mr. **Lamont**. Of course, we can argue all day about this. Germany wanted the United States to act as a bludgeon against England. As I see it, the United States refused to do that. Naturally, when Germany had the apparent superiority on the land and Great Britain on the sea, Germany would welcome any action by America that would cripple England's sea power; very naturally.

Senator **Clark**. What Germany asked the United States to do was to compel the same respect for our rights under international law from the Allies that we were compelling from them.

Mr. **Lamont**. Well, we cannot take up the defense of Germany.

Senator **Clark**. I do not expect you to agree on it, Mr. Lamont.

Mr. **Lamont**. We cannot undertake the defense of Germany, because we think they were all wrong.

Senator **Clark**. I dare say that is true, Mr. Lamont. If I had been one of a very small group that made $30,000,000 out of buying supplies for the Allies, I would doubtless have a somewhat different viewpoint myself.

Mr. **Morgan**. I think I would like to put in a word there, if I may, Senator Clark.

We told you in the beginning that our interest in the Allies began on the first day of the war.

Senator **Clark**. Yes, sir; that is perfectly true.

Mr. **Morgan**. And our sympathy with them. I think you can realize that our sympathy was not reduced when we retired from the purchase agency contracts at the time when we thought that would facilitate the end of the war.

Senator **Clark**. I am not suggesting that is not true in the slightest.

Mr. **Morgan**. Your indication was that we were practically bought by English money in order to sympathize with them. I do not like that kind of insinuation.

Senator **Clark**. No, sir; I do not have the faintest doubt that the sympathies of the Morgan partnership and the individual partners were with the Allies from the beginning. What we have been doing here is tracing the effect of all the commercial transactions on the neutrality policy of the United States and the United States getting into the war. I say merely that doubtless I might have a different viewpoint myself, if I had been one of those engaged in buying supplies for the Allies, and particularly if I had been one of a very small group that had made the very handsome profit of $30,000,000 in the group out of those transactions.

Mr. **Morgan**. No doubt, Senator, but I think you put yourself too low. I do not believe you could be bought for that money or any other.

Senator **Clark**. I am not suggesting in the slightest degree that you were not for the Allies before you entered into this purchase agreement for them. I understand that your sympathies from the very beginning were naturally with England and with the other Allies.

But I do say that your whole intimacy with the whole transaction, which, as I conceive bore a very great influence on our neutrality policy and our getting into the war, naturally gave you a different viewpoint from a man who did not have that experience.

Mr. MORGAN. Yes; but you must remember that we had no influence with the United States Government whatever at that time.

Senator CLARK. I think the record rather shows you exercised first and last considerable influence, Mr. Morgan.

Mr. MORGAN. I do not know that we had any. I did not know it.

Mr. WHITNEY. Economic forces may have, but we did not.

Did I understand you, Mr. Brown, to say that Lansing as well as the President wrote that Federal Reserve ruling?

Mr. BROWN. I think that the best thing there would be to consult the record on it.

Mr. WHITNEY. I do not doubt it, but it has not been introduced in the record yet.

Mr. BROWN. It is in the Hamlin diary.

Mr. WHITNEY. That does not prove anything, does it?

Mr. BROWN. Prove anything? I should say it did, Mr. Whitney. Mr. Hamlin was a member of the Federal Reserve Board.

Mr. WHITNEY. I thought Mr. Raushenbush introduced testimony yesterday to the effect that the Federal Reserve original letter went directly to the President and came back with certain additions, which were specifically read, those two specific points.

Mr. BROWN. Let us hold that question until we find the diary entry.

In the meantime, just to set the record straight on a minor point, Mr. Lamont, you said "The torpedoing of our ships." Is it not a matter of fact that the quarrel was over the torpedoing of British ships?

Mr. LAMONT. Both.

Mr. BROWN. How many of our ships were torpedoed?

Mr. LAMONT. Both.

Mr. BROWN. What were the great incidents with Germany? The *Lusitania*, the *Arabic*, and the *Sussex*. They are all British ships. I say this just to keep the record straight on that point.

Mr. LAMONT. It was American lives, as President Wilson pointed out.

Mr. BROWN. I grant you that. I just wanted the record to be straight. You said that it was the torpedoing of American ships, and the torpedoing was primarily of British ships.

Mr. LAMONT. First rate.[1]

But, Senator Clark, were you really intimating to Mr. Morgan that we asserted or had any influence with the Democratic Administration or Woodrow Wilson?

EXCHANGE CRISIS—AUGUST 1915

Senator CLARK. We put in a day and a half here the other day demonstrating, at least to my own satisfaction, that you had had a very great influence with the Democratic Administration through the exchange market, which was the lever, as I suggested, by which the whole neutrality policy of the United States was changed, authorizing the flotation of these Allied loans in the United States, which later, to my mind, contributed so much toward bringing the United States into the war.

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[1] Mr. Lamont offered further comment on this matter later, see *infra*, p. 8584.

Mr. Lamont. It was not we, Senator Clark, who had the influence. It was the exchange situation, as indicated by members of the Government and people to the Government throughout the months preceding.

Senator Clark. You and I did not agree on it, I grant you, but it seemed to me that the record showed conclusively that the firm of J. P. Morgan & Co., whether acting as agents of the British Government, or on their own responsibility, was more or less in control of the exchange situation at that time, and that the removal of the support which had been given to the exchange market by J. P. Morgan & Co., on behalf of the British Government, coinciding so exactly in time with the efforts on the part of high Administration officials to change the whole neutrality policy of the Government, was one of the most vital steps in the whole progress of the United States from an attitude of strict neutrality to the attitude of a belligerent.

Mr. Whitney. All that is only assumption, of course, Senator; that we could have held exchange with the pressure that was on it before definitive plans had been made.

You just assumed if we had bought that 7½ million dollars that we had left, the exchange would not have ever gone down.

Senator Clark. As I said the other day, Mr. Whitney, I am not undertaking to determine whether the firm of J. P. Morgan & Co., or the British Government itself is responsible for that.

But I do know that shortly thereafter the firm of J. P. Morgan & Co., on the instruction and at the request of the British Government, did peg the exchange market and hold it there throughout the remainder of the war; and that so far from being out of funds at that time to support the exchange market if it wanted to, the British Government, in the last year, did expend some 4 or 5 hundred million dollars in supporting the exchange market at that figure.

Now, you say it is deduction. Abraham Lincoln once said in a debate with Stephen Douglas that if a man was going through a large forest and at various places in the forest he found James, Roger, Franklin, and Stephen, apparently working entirely without any cooperation between each other, hewing out timbers for a house, and if at a later stage in the proceeding those timbers from the various parts of the forest were assembled and found to fit exactly and exactly construct the house, a reasonable man would conclude that James, Stephen, Franklin, and Roger had been acting in pursuance of a prearranged program.

I say that this record is such that a man can make a reasonable deduction from it without being able to prove the exact conversations that took place.

Mr. Whitney. But, Senator, I certainly did not mean to enter into a debate, but perhaps we can get a formula on that question on which we could agree.

In the first place, exchange, like anything else, is governed by demand and supply, is it not? If there is a great deal more supply than there is demand, it is going to go down. If we could agree that the pressure on exchange at that time was so in excess of the demand that it was inevitably going down unless very careful steps were taken to meet it, and that the economic result of that break in exchange upon American exporters was such that they were worried as to whether they would be able to continue such exports and that that economic factor may have influenced the Administration at that time—may have; perhaps, that is—I could go along with you.

But that is different from the suggestion that J. P. Morgan & Co., or the British Government or the British Government through J. P. Morgan & Co., deliberately withdrew support from trying to stem a tide of pressure that nobody in the world could have stopped.

Senator CLARK. You did stem it 2 months later, Mr. Whitney. You borrowed four or five hundred million dollars from us in the meantime.

Mr. WHITNEY. It is my point that definitive steps had been taken 2 months later. They had borrowed that $500,000,000 in this country. They had announced they were prepared to ship $500,000,000 worth of gold.

And, as stated in the two cables that Mr. Brown introduced in the record the other day, there is no question about it that for 3 successive days they told us to buy up to $10,000,000 of exchange, and the first one of them said that was pending announcement of definitive plans.

The record shows that we bought £400,000, and the third day, when these plans were announced, we sold that. In other words, that was a question purely, as the record indicates just as clearly as it may be, of holding exchange for 3 days pending definite announcement of plans.

That was done merely because they did not want to have an unsettled situation. But that was not very serious.

Senator CLARK. In other words, the British instructed you to hold exchange, which you did?

Mr. WHITNEY. For 3 days.

Senator CLARK. As I recall your cablegram, they asked you to hold it until further notice.

Mr. WHITNEY. No; dated the same day, 3 consecutive days. They say, "Today hold up $10,000,000" They repeated it the next day and the next day.

Senator CLARK. On the next day they said, "Please hold it up till further notice."

Mr. WHITNEY. No; the next day they said 4.70, and they said "hold it up till we could dispose of 400,000 pounds."

Mr. BROWN. From May 1916 on, you pegged exchange.

Mr. WHITNEY. What has that to do with it?

Mr. BROWN. That is Senator Clark's point.

Mr. WHITNEY. A great many British nationals were buying goods of all kinds in this country, which had nothing to do with our contract purchases. They wanted to have dollars available in order to make that trade. It is a question of finding dollars. There has been no question whatever but the British Government had the job of supplying dollars in this country.

It is a thing we talked about for months, that they had to have dollars.

Senator CLARK. Mr. Whitney, let it be understood that nobody has ever criticized the British Government for trying to support their own exchange. That was a perfectly reasonable transaction and undoubtedly a necessary transaction.

Mr. BROWN. Mr. Whitney, you mentioned that between the break in exchange and its reestablishment was this $500,000,000 loan. Surely you do not mean the implication to be taken from that remark that the British Government had no other resources than the $500,000,000 loan in the United States?

Mr. WHITNEY. We have gone over this a good many times, but if you will remember the time——

Mr. BROWN. You do not mean to imply that, do you, that they had no resources other than what they could have mobilized?

Mr. WHITNEY. Mr. Brown, that is purely your implication. I never said it. What I did say was that in August, when we stopped, we stopped because they were preparing plans. When in November we were instructed for 3 days to buy exchange these plans had come through.

They had obtained a credit. They had not received the money yet, and that was because the payment for the loan had not been effected. But certainly they had effected plans, which they talked about in August.

If I may have a second, I think I can find those cables.

November 15, Senator, cable 10456:

> Bank of England requests you continue support exchange market today in accordance with 10453.

No, that is the second one. Here it is. Here is the one on the 13th [reading]:

> Bank of England very desirous that exchange should not be allowed to recede below 4.66 pending completion of arrangements by London Exchange Committee. Bank of England, therefore, will be obliged if you will endeavor to hold exchange at that figure by purchases up to $10,000,000, if required, debiting Bank of England loan account——

That is the pertinent part.

The next day:

> Bank of England requests you continue support exchange market today in accordance with 10453.

Senator CLARK. Look down a little bit below there and you will find one where they ask you to hold the market till further notice. I read it in the record the other day. I do not have it before me right now.

Mr. WHITNEY. That was the 16th.

> If necessary continue support exchange at 4.66 in terms of 10453 until further notice.

Senator CLARK. That is what I was speaking of.

Mr. WHITNEY. Just a moment, and then I am finished. This is on the 19th, 3 days later. It says:

> Bankers not quite finished their arrangements. Therefore, London Exchange Committee cannot proceed with F. A. Vanderlip.

That was to create a $50,000,000 credit, you remember.

> Meantime please hold exchange steady at 4.70, reselling the £400,000 bought November 14, or even more to prevent exchange rising too rapidly, but do not allow it to go under 4.70.

Senator CLARK. That simply meant that your instructions were to hold the market as close to 4.70 as you could, not to let it go below 4.70; if it began to go up, to sell enough to keep it around 4.70.

Was not that what that instruction meant?

Mr. WHITNEY. That is what I mean by steadying it rather than trying to support it.

Mr. BROWN. I suggest we put in the record, Mr. Chairman, transcript of demand loan no. 1, which is the peg from May 4, 1916, to August 7, 1917.

(The document referred to was marked "Exhibit No. 2635" and is included in the appendix on p. 8752.)

Mr. WHITNEY. There is no possible argument that we bought exchange from May, but that is quite a different thing than this particular time the Senator mentioned.

I was trying to work out a basis of agreement, if I could, on the question of leverage.

Senator CLARK. Mr. Whitney, at that time, on August 13, 1915, when the exchange market was left without support, that was just a few days after J. P. Morgan & Co. had offered the British to extend this fund which was in your hands by a further loan up to $100,000,000, was it not?

Mr. WHITNEY. Quite right; and they declined it.

Senator CLARK. So far as the record shows, the British never answered that suggestion.

Mr. WHITNEY. By inference only.

Senator CLARK. They did say they were going to send over a commission and also send over some gold, but they never did directly answer your suggestion of extending their loan up to $100,000,000, did they? I do not recall that they did.

Mr. WHITNEY. They pretty nearly answered it, because you remember—I hate to go over all this again.

Senator CLARK. That is all right. The subject came up again. I do not have my documents over here.

Mr. WHITNEY. On August 20, Mr. Grenfell cabled Mr. Morgan, and I am reading only the pertinent part:

> We have strongly pressed that your proposal $100,000,000 1-year should be proceeded with at once, urging that offer very advantageous and would tide over interval between now and the announcement of any gold arrangements and arrival above-mentioned delegation, but not with success.

Senator CLARK. You are correct about that, Mr. Whitney. Anyway, they did not take up the proposition of extending it to $100,000,000?

Mr. WHITNEY. No; they did not answer.

Senator CLARK. They preferred to leave the market without support until the announcement that their commission was on the way over and that they were going to send some gold took effect, which was about the 2d or 3d of November, was it not, that the announcement came out?

Mr. WHITNEY. Yes. The net of it was that exchange went off to 4.51 on September 1. The next day there was an announcement of this delegation and these plans of doing something about it. That was the bottom. Exchange then climbed up gradually with the announcement.

Senator **Clark**. In the meantime the Government had changed its neutrality policy.

Mr. **Whitney**. I do not know if they changed it between the 1st and 2d of September.

Senator **Clark**. Changed right at that time, though.

Mr. **Whitney**. Somewhere.

Mr. **Lamont**. Mr. Brown, you were asking me a moment ago[1] about the blowing up of American ships, intimating that they were not American ships to any great extent blown up by the German submarines.

I could not give you chapter and verse then because I had not referred to our chronology. Your chronology omitted those blowings-up. There were the following American ships:

The *Healdton*, the *Memphis*, the *Vigilancia*, the *Illinois*, and, I think, the *Gulflight* was under an American flag.

Mr. **Brown**. I did not say that none were torpedoed, Mr. Lamont. I said more controversies with Germany were over the torpedoing of English ships, and that far more English ships were torpedoed than American.

Mr. **Whitney**. There were far more English ships torpedoed than American.

Mr. **Lamont**. All the German archives say that it was their entire intention to try to choke off England's food supply. They speak far more of that.

Mr. **Brown**. I was not discussing that. The only thing I was discussing was your remark in the record about the torpedoing of American ships.

Senator **Barbour**. There was torpedoing of American ships.

Mr. **Brown**. Undoubtedly, Senator. The point I was making was the quarrel with Germany was over the torpedoing of English ships. I was just trying to keep the record straight on that point.

Mr. **Lamont**. And the loss of American lives. You remember that statement the first day. I keep reiterating that.

There has been so much in the record, Mr. Chairman, in regard to the so-called German side of this controversy that now that we are on it, I think we should like to read into the record, with your permission, the famous Zimmerman telegram sent by Germany to the Government of Mexico in 1917, offering to split off Texas, New Mexico, and Arizona for Mexico's benefit in case of war.

Senator **Clark**. You mean, in case of war between the United States and Germany.

Mr. **Lamont**. And Germany, yes—and wanting to get Japan in on the German side.

Senator **Clark**. Japan was already in on the British side, was it not?

Mr. **Lamont**. Yes; but you remember, this note read that he should invite Japan to immediate adherence.

Senator **Clark**. You think it was nefarious for Germany to wish to take away one of England's allies, do you, Mr. Lamont?

Mr. **Lamont**. I am not commenting on it. I am just commenting on the provocative nature of that note, which offered to give away American territory and invite Japan to immediate adherence.

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[1] See supra, p. 8579.

Senator **Clark**. You recall that Colonel House was at that same time offering to give away German territory?

Mr. **Brown**. If we put the Zimmerman note in the record we had better put the Treaty of London in the record.

Mr. **Lamont**. No; the Zimmerman telegram is that length [indicating]. You can put the Treaty of London in the record, for all I care.

Mr. **Brown**. The business of parceling out the territory of your enemies and your potential enemies is so habitual that we hardly need take any note of it.

Mr. **Lamont**. Mr. Brown, your recollection may not be as vivid as is that of some of the rest of us as to the effect of the Zimmerman note on public opinion in America. I think it worth while noting.

With your permission I should like also to read into the record four paragraphs of the German submarine note of January 31, 1917, now that we are on the submarine question. That note, as you recall, told us the barber-pole manner in which we had to paint our steamers, and we could send only one steamer a week and it had to pursue a certain lane, and so forth.

They are both very brief.

Senator **Clark** (presiding). They may be inserted.

Mr. **Lamont**. Thank you.

(The documents referred to were marked "Exhibits Nos. 2636 and 2637" and are included in the appendix on p. 8780.)

Mr. **Brown**. I do not think, Mr. Lamont, that anyone here is trying to justify Germany. I think what we are trying to do is find out more or less what happened and the defense that is offered against what happened is that it was a moral war against Germany. You cannot get anywhere until you stop to see what happened. But I think no one is trying to justify Germany.

To answer your question, Mr. Whitney, the Hamlin diary has the following entries:

> Lansing says Board should go slow in approving nonliquid unsecured.

And later on:

> C. S. H. says cable nothing until his talk with Lansing and Harding.

Mr. **Whitney**. But Mr. Wilson wrote those two paragraphs.

Mr. **Brown**. So it appears from the record.

Mr. **Whitney**. We did not know that until several years after the war.

FINANCIAL CRISIS—DECEMBER 1916 [1]

Mr. **Brown**. Mr. Chairman, I would like now, as a further comment on Mr. Lansing's state of mind at this time and his part in these financial difficulties that were occurring to introduce into the record a letter written on April 7, 1917, after the declaration of war, addressed to Edward N. Smith, Watertown, N. Y.:

(The document referred to was marked "Exhibit No. 2638", and is included in the appendix on p. 8780.)

Mr. **Brown**. [reading]:

> My Dear Ed: I received your letter of approval of the President's address to Congress and was much gratified that you felt as you do about it, although I knew that you would feel so without your writing.

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[1] See also "Exhibits Nos. 3125 through 3162 and 3192 through 3217", Hearings, Part XXX; and "Exhibit No. 4135–A", Hearings, Part XXXII.

> Since you wrote me Congress has acted, and I am sure that to one who watches as closely as you do the course of national affairs the vote in the House must indicate the conditions under which we have long been laboring. We have known the state of mind in the House and realized that it was not as "clear sailing" as many people seemed to think. I was asked the day before the vote was taken what would be the number of the opposition, and when I said, "50, possibly 60", I was ridiculed as a pessimistic prophet. I really believe there were a number of others who would have voted against the resolution if they had dared and if they had not the overwhelming majority in the Senate as an indication of popular opinion.
>
> It is my judgment that if the same resolution had been presented in February, the House would have shown three times as great opposition, and if it had been voted on last summer, its passage would have been so close as to show a divided country. Indeed, it might have entirely failed.

Senator **Barbour**. This was Lansing's opinion?

Mr. **Brown**. This was Lansing's opinion [reading]:

> Of course, the President could have made a record for himself by action then, but, knowing the temper of the coordinate branch as he did, he would have placed the country in a most humiliating position.

Mr. **Lamont**. Where did this letter come from?

Mr. **Brown**. This is from Mr. Lansing's papers, the open papers in the Library of Congress [reading]:

> The only course practicable was to wait, to suffer further indignities, and to make every effort to bring about peace, so that the lukewarm would grow hot and the cold lukewarm.

Not to bring about peace, but to bring about a domestic political situation.

Mr. **Whitney**. Is that from the letter?

Mr. **Brown**. No. That is my comment, off the quotes.

I will read that [reading]:

> It was to wait the time when there could be no question but that a substantial majority favored war. Even when that time arrived, the thought that a very considerable number of pacifists of pro-German and anti-British adherents, and of Representatives who sought at any cost the material good of their constituents could be counted against the resolution was to me a distressing fact.

Toward the end of the letter, in the next to the last paragraph, he says [reading]:

> Do not think that I am blaming those who have been bitter critics. I am not, because I realize their felings were natural from the facts at their command. But I do hope that now they will comprehend the obstacles which had to be removed and the difficulties which had to be overcome, before decisive action could be wisely taken.

Mr. **Morgan**. Mr. Brown, might I call your attention to this sentence? [reading]:

> and of Representatives who sought at any cost the material good of their constituents could be counted against the resolution.

Mr. **Brown**. I read that, I believe, Mr. Morgan.

Mr. **Morgan**. That means that the money question did not influence the majority of Congress in any case. I should think it meant that he thought so.

Senator **Barbour**. It certainly could mean that.

Mr. **Morgan**. That is what I thought it could mean.

Mr. **Lamont**. On the sinking of American ships, again, just for a second, you recall that American ships were sunk in March; that is, between the time that Von Bernstorff was given his passports and the time of Woodrow Wilson's speech.

Mr. **Brown**. Oh, yes.

Mr. **Lamont**. I think there is a very distinct factor to be indicated in that circumstance.

Von Bernstorff was given his passports, you recall, a month before Ambassador Page sent his cable which was read into the record yesterday.

Mr. **Brown**. Having covered in a way the elements of motives behind some of the powers within the Administration, I wish, Mr. Chairman, to recur to the financial events.

I offer for the record a cable from H. P. Davison to Morgan, London, no. 31879, December 1, 1916, from which it appears that the exchange situation had become very serious as a result of the Reserve Board announcement.

(The document referred to was marked "Exhibit No. 2639", and is included in the appendix on p. 8781.)

Mr. **Brown**. I wish to call attention just in passing to the second paragraph [reading]:

> In addition to the foregoing, we have invested in United Kingdom loan, other loans to Allies, and acceptances with belligerent government guarantees, $25,759,000.

and so forth.

I wish to offer for the record a cable of December 4, 1916, from Morgan in New York to E. C. Grenfell.

(The document referred to was marked "Exhibit No. 2640", and is included in the appendix on p. 8782.)

Mr. **Brown** (reading):

> Exchange purchases up to noon today already aggregate over £3,000,000. As indicated in 31844, all our calculations will be completely upset if exchange purchases continue as now.

The immediate crisis, apparently, Mr. Whitney, produced by the Reserve Board announcement, other than the general fear that you expressed in cables already in the record, was this sudden pressure on exchange. Is that correct?

Mr. **Whitney**. It was one of half a dozen, if you want, contributing factors that made that period there a serious and an anxious one. Of course, the direct result of the Federal Reserve Board ruling, plus a Cabinet crisis that was pending at that time, was twofold: One of them the great pressure on exchange, partly accelerated by the fact that American balances in London were withdrawn.

There is no question or doubt about it. It runs right through all these cables that the exchange matter, the question of purchasing exchange, and the ability to get dollars, was the unknown factor in the situation, as was brought out yesterday.

We knew pretty well what our contractual payments were.

The Federal Reserve ruling's first repercussion was on the exchange market.

Then, of course, there was the fact that there was a 15 percent market here, which naturally withdrew funds from London.

Those three factors, money rates here, the Cabinet crisis in London, which had an additional sort of human effect that you could not get the assistance from the people over there to do something about it, plus the Federal Reserve ruling—the Federal Reserve ruling first in importance, of course—there is no question about it that the pressure on exchange at this time was a factor in trying to plan for the next 3 or 4 or 5 months how the British would get available dollars.

Mr. Brown. This cable says [reading from "Exhibit No. 2640"]:

> All our calculations will be completely upset.

To what does that "calculations" refer? As I recall the previous record, the Chancellor had been very reluctant to use up his quick American assets. I do not recall that the record shows whether the Chancellor consented to use up these assets. Do you recall to what that "all our calculations" referred?

Mr. Whitney. It would take me a little time to show it actually. I think I can answer your question, though, from memory.

We had talked about what the requirements were, if you remember, up to March 1, and March 31, earlier, the Chancellor told Mr. Morgan that he had requirements of approximately a billion dollars in that period.

We know that he actually spent 1,200 millions, 200 million dollars more than that, they and the French together.

He then had told Mr. Morgan that he then had approximately a billion dollars of readily available resources, readily available within 90 days, but—and this is what I mentioned a minute ago—because of the Cabinet crisis we had not been able to get attention to it.

That schedule was predicated on contracts that they could see. The question of withdrawing some very substantial amount of money from London by American banks was obviously a factor in the whole weight, of exchange, and threw their calculations, that they had given us up to date, more or less out of gear.

Mr. Brown. At this time, on December 4, there was no definitely fixed program for financing requirements? There were tentative calculations, we will say, but there was no definite program?

Mr. Whitney. It never could be very definite. We have tried to estimate, you know, a month ahead, but I do not think that it ever could be called a definite program because there were too many unknown factors.

But certainly what we were doing all the time was pressing the British Chancellor, the British Government, to get his resources over here. They were not any good in London. Gold did not do him any good in London. We were pressing him to go about his business.

This all terminated, as you know, a little later than this in their saying they could see their way through December if we would increase the demand loan.

Mr. Brown. We will come to that in a moment.

I offer for the record cable of December 5, 1916, no. 33036, from Morgan, New York, initialed H. P. D., to E. C. Grenfell.

(The document referred to was marked "Exhibit No. 2641" and is included in the appendix on p. 8782.)

Mr. Brown [reading]:

> Our exchange purchases this morning aggregate approximately £4,000,000. We must again reiterate that this feature seems to be the crux of the whole situation. Payments under contracts closed through us are not excessive.

We figure them approximately 100,000,000 monthly during the next 4 months. But the support of the exchange market is the serious feature. In attempting yesterday to participate nos. 1 and 2 loans beyond our own circle, we found reluctance on the part of some institutions naturally due to low reserves and extraordinarily high rates for call money. With this somewhat unexpected obstacle and with the situation as serious as it is, we called group of confidential leading bankers this morning to point out the necessity of caring for situation and the facility for doing so with such large amounts of American securities to use pending arrival of sufficient gold. All these bankers most anxious to cooperate and express willingness to reduce their reserves even below legal limit, if necessary, but as one man they asked the question, What are Great Britain's requirements going to be in the next 30 days? We could not answer this question because the handling of exchange makes that feature absolutely uncertain.

I would like to call attention to the phrase—

anxious to cooperate and express willingness to reduce their reserves even below legal limits * * *.

How often in the New York money market does the occasion occur where the banks must stand willing to reduce their reserves below the legal limit?

Mr. Whitney. What is a reserve for?

Mr. Brown. That is what Mr. Morgan's father said in 1907. Has it been said since?

Mr. Whitney. I never heard it said since. Do not certain facts still hold true?

Mr. Brown. Yes; but it was a very serious crisis. It was the most serious financial crisis that the New York market had had since 1907.

Mr. Whitney. I just said that call money went to 15 percent.

Mr. Brown. This was a situation where the banks were forced to throw good money after bad?

Mr. Whitney. Not a bit. They did not have this loan, or but a little bit of it.

Mr. Brown. They had Allied bonds and had all kinds of commitments. The financial world had spread, so that it all hung together.

Mr. Whitney. Mr. Brown, when you make a statement about throwing good money after bad, and so forth, and all the rest, obviously you are incorrect. That is as clear as a bell. If you will read the whole cable, you will see what the situation was. You just pointed out what we did. They wanted to know what the situation was for 30 days. Obviously money was tight. We have pointed out in cable after cable that the Federal Reserve Board's ruling precipitated a situation on the exchange which momentarily, temporarily, raised the question of how they were going to get through the 30-day period, and made it a difficult one. You will find further on——

Mr. Brown. Just a moment, because I agree with you entirely, Mr. Whitney, but the only point I want to make is, that the war trade boom had produced a situation now where any injury to Allied credit would become a threat to the reserves of the New York banks.

Mr. Whitney. This was purely a temporary financial matter.

Mr. Brown. But that financial situation is produced, is it not, by a stringency, a temporary blocking of Allied finances?

Mr. Whitney. This stringency was produced by a very unexpected and very broad ruling by the Federal Reserve Board.

Mr. **Brown.** In relation to Allied credit.

Mr. **Whitney.** Certainly, because that had two results. One of them was that it interrupted a program which would have carried us through in a normal way, and, secondarily, that caused pressure on exchange, which created an additional burden beyond which we were perfectly willing and set to carry out. It produced that situation, and the effect of an unexpected contingency, which brought about a very serious stringency in the money market for the moment. As you know——

Mr. **Brown.** Mr. Whitney, that is all true, and I agree with you.

Mr. **Whitney.** May I finish?

Mr. **Brown.** Had not the Allied financial situation got to such a point that it resulted in a drain on the reserve of the banks? I do not see any other way to interpret that phrase.

Mr. **Whitney.** We are doing all this in the light of hindsight, are we?

Mr. **Brown.** Of course.

Mr. **Whitney.** Did they exceed their legal reserves?

Mr. **Brown.** I do not know.

Mr. **Whitney.** If you read the cable, you will see this was a stringency, and in order to meet that temporary contingency, they were prepared, if necessary, to reduce their reserves below the legal limit.

The fact is—and we are reading all this in the light of hindsight—that about a week or two after that money rates slackened very materially, and they slackened at the time when we finally got to the attention of the British Government, and they told us, which I started to say a moment ago, that if they had another 150 millions, they could take care of that.

Mr. **Brown.** I am taking note of that, but I do not think that it answers my question.

Mr. **Whitney.** All I wanted to show was the fact which I stated.

Mr. **Brown.** What I want to say is that the situation had reached the point where because of a blow to Allied credit a general financial crisis was in the offing.

Mr. **Whitney.** Not a crisis, but monetary stringency. We are talking about finance. Certainly it was a blow to Allied credit. It was a blow to financing. It was gratuitously given it by the Federal Reserve Board. They upset the program for the moment. There is no argument about that.

Mr. **Raushenbush.** A month or so before that, in the argument about the rifle situation, we had some of the banks admitting, and you passed it on to England, that some of the banks had gone beyond their limit in lending to those companies.

Mr. **Whitney.** Yes.

Mr. **Raushenbush.** I think the phrase was that it "forced loans in despair." Here they are talking about reasons.

Mr. **Whitney.** That is true, but that had nothing to do with Allied credit, but it was a loan to the rifle people.

Mr. **Raushenbush.** We brought out what connection that had with Allied credit at the time.

Mr. **Lamont.** Mr. Brown, if you ever worked in a bank, you would know that at times of high call money, in meeting the stress, banks never hestitate temporarily to go below their legal reserves. They consider it their duty. As Mr. Whitney said, that is what reserves are for. The reserves may be restored the next day, but it is their duty to relieve a very tight and very difficult situation in conditions.

Mr. **Brown**. Yes.

Mr. **Lamont**. Let me finish.

Senator **Barbour**. Let him finish.

Mr. **Brown**. All right.

Mr. **Lamont**. It is their duty to relieve a difficult situation in the money market, and they do so by furnishing money. Way back in 1907, Mr. George F. Baker, the head of the First National Bank, one of the most conservative of banks of that day—and a bank that was called "Fort Sherman" because it was so terribly solid and such a bulwark for the Government—went down to 10 percent instead of 35. That was a very unusual distance to go, but he had no hesitancy in going there.

During the high call money market of 15 percent, which Mr. Whitney described, in December of 1916, any number of banks in New York, in order to relieve the situation, did go under their reserves for a day or two, and then did go back.

I think you lay altogether too much stress, if I may say so, upon the phrase, "legal reserves."

Mr. **Brown**. I am sorry I did not make myself clear. I was not for a moment implying that there was the least impropriety in such a thing. I have always admired Mr. Morgan's father for that phrase in 1907, when I read the history of it, but the point I am making is the seriousness of the situation in the New York market, together with the involvement of Allied credit.

Mr. **Whitney**. May we get back to the record for a minute? In the first place, this call money market, which caused this stringency should be considered. This cable which you have just read is dated December 5, 1916. You have to judge the whole financial situation. I have here the Financial Chronicle, which is supposed to be the standard thing, and I would like to read what the rates were during the first 2 days of December.

The first is for Friday, and 4½ was low and 6½ high. The following Monday, the 4th day of December, the low was 6 and the high 16; the 5th, the day of this cable, the low was 6 and the high 10; the next day it was 3 to 7; 3 to 5; 3⅓ to 4.

So that by the 8th, they had gone back. In other words, for some reason, there had been a temporary money stringency, the reason of which I do not remember. This cable was quoting the situation to them at the time call money was 15. Obviously the banks in New York were hesitant about doing anything like that. They did not know how long it was going to last, and when we explained the situation to them and explained it was a temporary matter, they said they would take care of that, because that is what a bank is for, to take care of temporary emergencies.

I would like to read again, if I may, a cable which was introduced in the record yesterday,[1] under date of December 22, 1916, which reads as follows [reading]:

> Am increasingly impressed with the idea that the President's message will do no harm to the prospects of collateral loan. Indeed the liquidation produced and the reduction of loans might make it a little easier.

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[1] Entered as "Exhibit No. 2631", see supra, p. 8571.

That is the first part of the cable. This is of course later, but the point I want to show is the later situation. It was signed by Mr. Morgan and is typical of the general situation at that time. It states further [reading]:[1]

> Banks in the West are carrying large reserves for which they cannot find use in their own parts of the country. The course heretofore has always been to remit such funds to New York for temporary employment there. This I think is bound to occur again, though this year the tendency of money to New York has not developed quite as early as usual.

In other words, there is no question that the Federal Reserve ruling caused additional pressure in exchange, which made an immediate need for money. Secondarily, the high money rates and the ruling caused American sterling balances to be withdrawn in New York. All those things inspired for almost a moment—I used the word "momentarily" and I did not realize how right I was—the going through of a money stringency. That happened to be the day, due to the demands on us, we asked the banks to participate in these demand loans. What could have been more natural? They say when they learn the circumstances, "Tentatively the thing is being taken care of", but it has obviously been set back by the Federal Reserve ruling. There is no question about that.

When they were asked they said, "Certainly this temporary situation will have to be taken care of, and, if necessary, we will draw on our reserves."

It seems to me that is natural, and it is a situation which appears simple.

Mr. LAMONT. One general remark, Mr. Brown, which is this:

You are describing from a few cables what you declare as a terrible critical situation in December 1916.

It so happens that Mr. Morgan, Mr. Whitney, and myself, were in the midst of that situation. It was not critical. It was anxious. There were a lot of things to be done, which Mr. Whitney has described in detail, but I can tell you from our experience, rather than your getting some inferences from a cable, that it was not critical.

Mr. BROWN. I offer for the record the call money rates which Mr. Whitney was reading from.

(The document referred to was marked "Exhibit No. 2642" and is included in the appendix on p. 8783.)

Mr. BROWN. Proceeding with the cable which we were discussing, of December 5, 1916, it states [reading from "Exhibit No. 2641"]:

> It was apparent to us that our inability to answer this specific question or even to place an outside limit upon the exchange item, was very disturbing to these bankers. We feel, therefore, on this and on every other account, that we must have some early expressions as to plans of authorities on this point. We are not fully acquainted with what is in their minds. Perhaps they have some undisclosed resources that we are not aware of, but at the present rate of going they will soon exhaust all gold available or in transit and also available American securities even going so far as to assume that we can possibly secure loans up to 80 percent of the value of these securities. We do not presume to suggest the policy of the authorities but our responsibility certainly requires our pointing out the dangers in the situation so that if we should suddenly find that we had exhausted all available resources of this market, the knowledge of that fact would not come as a shock to authorities.

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[1] Entered as "Exhibit No. 2631." See supra, p. 8571.

Mr. **Whitney**. Mr. Brown, may I comment on that?

Of course the answer to that is that they did come through with additional resources, and it might clarify the matter slightly if we remember that between approximately this time, the 1st of December, until the end of March, the British Government shipped about $536,000,000 worth of gold to this country; that they sold free securities of about $69,000,000, I think it is; that we floated for them, as you know, $250,000,000 of United Kingdom Third Loan, and the demand loan was at the time of April 6, $345,000,000.

The United Kingdom loan was secured by $300,000,000 worth of securities. The demand loan at the time of April 6 had something over $700,000,000 of securities as collateral for that. And, in addition to those resources which were here, and those shipments of gold and sales, the British Government had about $650,000,000 worth of securities which would have been usable for collateral or for sale, to the extent of about $300,000,000.

We had a transaction with the Canadian Pacific Railway for $200,000,000, and they had about $100,000,000 of British municipals ready for sale, and about $400,000,000 worth of gold.

So that having financed themselves to the extent of about $1,200,000,000 between this date and March 31, they had securities and gold to the extent of approximately $1,000,000,000 readily available.

Now, that shows that this inquiry we made—certainly we made that inquiry because we wanted to know what they were going to do about it. That was our job and our duty. But the answer is, when we asked them what they were going to do about it, that is what they did.

You will remember, of course, subsequent to this cable they put a new law through, which entitled the Government to requisition securities which before had been voluntary. When they shipped gold to meet the engagements in this country, more drastic steps had to be taken to take care of them.

This is pointing out that we had to know, because of this unexpected set-back, if you will, in the program, which made it essential for us to know, so that we would know where they were going, and how they would meet the situation.

Mr. **Brown**. I think a lot of those things we will come to in due course.

Mr. **Whitney**. It is a little easier to get them sort of pooled together.

Mr. **Brown**. That cablegram of December 5, 1916, is offered for the record with appropriate number.[1]

Mr. **Brown**. I offer for the record a cable of December 6, 1916, no. 26986, from Mr. Grenfell, of which I will read only the last paragraph [reading]:

> I presume that if a break were allowed in exchange or any cancelations of orders were to begin, these might occasion a big squeeze in your stock markets and curtailment of loan facilities by bankers. Do you endorse this opinion?

(The document referred to was marked "Exhibit No. 2643", and is included in the appendix on p. 8784.)

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[1] Previously entered as "Exhibit No. 2641", see supra, p. 8588.

Mr. **Brown**. I offer the answer to that cable, being cable No. 33061 of December 6, 1916.

(The document referred to was marked "Exhibit No. 2644", and is included in the appendix on p. 8784.)

Mr. **Brown**. I offer for the record cable of December 6, 1916, no. 28017, the relevant portion being in the third paragraph at the bottom [reading from Exhibit No. 2645"]:

> If you can therefore care for $150,000,000 during the whole of December out of advances on American Securities in addition to loans nos. 1 and 2 now outstanding there will be a margin. This provided gold deliveries meet exchange requirements.

(The document referred to was marked "Exhibit No. 2645", and is included in the appendix on p. 8785.)

You will remember that it says further back that they were prepared to ship $200,000,000 worth of gold immediately.

Senator **Vandenberg**. Is there any mention made as to the immediate effect of the cancelation of orders?

Mr. **Brown**. J. P. Morgan & Co. say [reading from "Exhibit No. 2644"]:

> A break in exchange or cancelation of orders would probably affect the stock market, and also foreign issues. We are not sure we know just what you have in mind by a break in exchange.

Mr. **Lamont**. Go ahead.

Mr. **Brown**. Shall I read the rest of it? [reading]:

> Our experience leads us to believe that if the protection were completely removed the exchange market would break badly, the results of which would be reflection upon British credit, which would in turn make borrowing more difficult. We do not see how cancelation of orders would bear upon this, unless cancelations were viewed as necessary because of lack of ability to pay for the goods; that is to say, if cancelations were made because of speeding up of resources at home or in colonies, thus enabling Great Britain to get along without goods from this country, it would be only a natural move in view of the difficulties of borrowing in this country.

However, Mr. Whitney, that does not seem to square with the situation in connection with the rifle matter, where, as I recall the record, the attitude of the British Government was that no cancelation must be made because it would produce a terrific financial squeeze. My guess would be that that is what E. C. Grenfell had in mind in his inquiry of the 6th [reading from "Exhibit No. 2643"]:

> I presume that if a break were allowed in exchange or any cancelation of orders were to begin, these might occasion a big squeeze in your stock markets, and curtailment of loan facilities by bankers.

Mr. **Whitney**. That is a question, is it not?

Mr. **Brown**. Whether you endorse the opinion.

Mr. **Whitney**. We say it would affect the stock market.

Mr. **Brown**. You opened the paragraph by stating [reading from "Exhibit No. 2644"]:

> A break in exchange of cancelation of orders would probably affect the stock market, and also foreign issues.

Mr. **Whitney**. I do not quite get your reference to the rifles contracts.

Mr. **Brown**. You say down here that cancelation would not bear upon this, but, as I recall the record of the rifle situation, the argument to the British Government was, "You cannot cancel these contracts because the whole financial situation in America hangs on them."

Mr. **Whitney**. Excuse me. What we stated to them in connection with the rifle contracts was that we were then planning the second U. K. loan, and that because of certain large important banks, whose support had been necessary, if we were going to get through the second U. K. loan, and they were interested in the settlement of the rifle contracts, because of loans and other reasons, that unless we could convince those banks that the British Government were prepared to make an equitable adjustment of those contracts, that we would not be able—I think we used the words, it would necessarily delay that operation.

The question here is, I think that you read [reading from "Exhibit No. 2644]:

> We do not see how cancelation of orders will bear upon this, unless cancelations were viewed as necessary because of lack of ability to pay for the goods. * * *

In that case it certainly would affect the British credit, would it not?

Mr. **Brown**. That is not the situation with the rifle matter.

Mr. **Whitney**. I do not see any analogy in the rifle matter to this.

Senator **Vandenberg**. What would have been the effect of a general cancelation of orders?

Mr. **Whitney**. You mean on the credit situation?

Senator **Vandenberg**. I mean on the general economic situation in the United States.

Mr. **Whitney**. I think you asked Mr. Lamont that question the other day.

Senator **Vandenberg**. I seem to find myself coming back to it constantly.

Mr. **Whitney**. I think Mr. Lamont can answer it better than I can, because he has answered already, but if there had been an abrupt cancelation, it probably would have been very upsetting.

Mr. **Lamont**. Bound to be so.

Senator **Vandenberg**. In other words, our economy was squarely tied to these orders in a large degree?

Mr. **Whitney**. These are purely financial troubles.

Senator **Vandenberg**. I understand, but I am talking in general terms.

Mr. **Brown**. And also tied to the exchange.

Mr. **Whitney**. General orders?

Mr. **Brown**. I mean our economy was tied to these orders and also tied to the exchange.

Mr. **Lamont**. Any sudden collapse of a high degree of prosperity, whether it happens to be in time of war or otherwise, always means a depression.

Senator **Vandenberg**. That is quite true.

Mr. **Lamont**. As it goes up it is inflation, and coming down it is deflation.

Senator **Vandenberg**. That is why I am not interested in that at any time.

Mr. **Brown**. We have seen the importance of exchange and orders to the American economy, and I would like to offer for the record, as an example of the importance of the exchange to the British economy, as indicating the immensely close tie-up that had been created, a memorandum dated July 23, 1917, being a memorandum which was handed to Mr. Page on July 20, 1917, at the instance of the Chancellor of the Exchequer, that is, by the British Chancellor of the Exchequer.

Mr. Lamont. When was this?

Mr. Brown. This is dated July 23, 1917.

Mr. Lamont. Four months after we got into the war?

Mr. Brown. Yes, sir.

(The document referred to was marked "Exhibit No. 2646" and is included in the appendix on p. 8785.)

Mr. Brown. The relevant parts of that memorandum read as follows [reading]:

> By the beginning of 1916 they—

That is the British—

> had to go a step further and to come to the support of commercial exchange by making a standing offer through their agents in New York to purchase sterling from all comers at fixed minimum rate of $\$4.76\frac{7}{16}$.
>
> * * * * * * *
>
> This arrangement provided a direct means of conversion of sterling into dollars by which British purchasers of American goods could reckon on financing them at a fixed rate while the Allies and dominions who received sterling credits could turn them into dollars to meet their American payments. Indirectly also it stabilized in some degree all the other foreign exchanges, since sterling could be, if necessary, converted into any other foreign currency by first purchasing dollars and then using these dollars to obtain foreign currency required.
>
> As time went on this system developed into one by which the nervous center of Allied financial system was as much in New York as in London. While gold was occasionally exported to other destinations, the bulk of it was reserved for America. By furnishing America with unprecedented quantities of specie we ourselves provided the basis of credit she required to finance her sales to us.

Mr. Brown. I also would like to offer for the record a letter from the British Ambassador, Sir Cecil Spring-Rice, to the Secretary of State, dated July 1, 1917.

(The document referred to was marked "Exhibit 2647", and is included in the appendix on p. 8789.)

Mr. Brown. That letter reads in part as follows [reading]:

> I am instructed by His Majesty's Principal Secretary of State for Foreign Affairs to call your immediate attention to the financial position of Great Britain in regard to the war, inasmuch as it is of an urgent and critical character. It appears, indeed, to Mr. Balfour that the United States Treasury do not realize how perilous the situation truly is, namely, that there is danger that the ability of His Majesty's Government to effect payments in America from today onward will be in jeopardy.

This is the relevant passage [reading]:

> The effect which will be produced on the progress of the war by a collapse of the exchange will be no less disastrous than a great military reverse, for not only will all commercial relations between the two countries, including the cotton trade, be thrown into complete disorder, entailing the stoppage of the entire private export business from the United States, but, further, the basis of financial relations of all the Allies with the rest of the world will be removed, and a general collapse of credit and of all financial confidence will inevitably result.

I offer for the record a cable dated December 7, 1916, no. 28037, indicating that the delay in contracts—what would you conclude, Mr. Lamont, that this cable indicates?—that the delay in signing contracts was largely due to the Cabinet crisis, rather than anything else?

Mr. **Lamont**. No. 28037?

Mr. **Brown**. Yes, sir.

Mr. **Lamont**. Your question was what?

Mr. **Brown**. Does not that indicate that the delay in—I will offer along with no. 28037 cable no. 28038 of December 7, 1916—and do not these two cables together indicate that the chief difficulty with regard to purchases was the Cabinet crisis?

Mr. **Lamont**. Getting orders signed, you mean?

Mr. **Brown**. Yes, sir.

Mr. **Lamont**. No fresh orders should be placed in view of difficult money situations, also.

Mr. **Brown**. The cable also reads [reading from "Exhibit No. 2649"]:

> Further, in view of difficult money situation * * *.

Mr. **Lamont**. Mr. Whitney alluded to that as one of our difficulties.

Mr. **Brown**. Yes, sir.

Mr. **Lamont**. During all this period I think it is important not to forget the fact that the British Government had immense liquid resources. They were dilatory in mobilizing those resources. They were dilatory in telling us just how they were going to mobilize them. That is really the burden of the reports in the course of the 6 months before America finally entered into the war. We constantly communicating to them, and saying, "For goodness' sake, show your hand and get your resources together, and show how you are getting on", and so forth. They were occupied with the war on the western front, with the Cabinet crisis, and so forth. They always knew they had ample resources, so that they did not take the matter as seriously as we thought they should at the time.

Mr. **Brown**. Mr. Lamont, it seems to us that it is either one way or the other—either the British were rich enough to do this or else they were not. The memorandum I just submitted for the record said that the British were worried about their resources.

Mr. **Lamont**. Who said that?

Mr. **Whitney**. When we entered the war they had $1,000,000,000 to ship, and everything covered here.

Mr. **Brown**. How do you interpret this language [reading from "Exhibit No. 2647"]:

> * * * that there is danger that the ability of His Majesty's Government to effect payments in America from today onward will be in jeopardy?

Mr. **Whitney**. Was not that August 1917?

Mr. **Brown**. July 1, 1917.

Mr. **Whitney**. 1917?

Mr. **Brown**. 1917.

Mr. **Lamont**. Four months after we were in the war. What has that got to do with the last January? You have been talking about the conditions in December and January.

Mr. **Brown**. Then the situation, as you picture it, is that the British Government was rich enough to carry the war through up to July 1, 1917, and then was busted?

Mr. WHITNEY. Mr. Brown, it is perfectly well known that there was an Anglo mission which came over here to meet with the United States Treasury on the question of finance. It is perfectly well known that the markets were closed to private borrowing on the part of Great Britain. That cable merely says that the British nationals—I can not quote it, but it said that the British nationals needed such loans on which to continue their purchases here, outside of the Government, and it says that the commercial business will break down if something is not done about the exchange markets. That is 4 months after we had entered the war, when the United States Government was discussing with the British Government the method of financing, about which we have no knowledge. The result, we know, is that from the entry of America into the war on, the markets were closed to the British Government, to go and try to do further financing. I cannot see that that has any reference whatsoever to a matter four or five months before our entry into the war.

Mr. BROWN. I hope we will come to that point a little later.[1]

I offer for the record a cable dated December 7, 1916, No. 33131. This cable is apparently the answer to the request whether you could furnish $150,000,000.

(The documents referred to were marked "Exhibits Nos. 2648, 2649, and 2650" and are included in the appendix on pp. 8790 and 8791.)

Mr. BROWN. In the middle of the first paragraph that cable reads [reading from "Exhibit No. 2650"]:

> * * * that your estimate is that an additional amount of loans, say $150,000,000 during December will take care of the entire situation as you see it for that period. Our important banking friends have assured us that they will stand by and assist and as result of various conferences today, we expect that we will be able to carry the business through if no unforeseen obstacles arise. To give you something of the picture, this would involve our having a participation in excess of $100,000,000, the National City Bank, say, $40,000,000, the First National Bank, say, $30,000,000, and so on. Naturally these institutions ask what is going to happen after the first of the year and to that we are unable to reply. We of course cannot encourage an operation which will bind up the New York market without some way of liquidating it.

Mr. WARDWELL. Read on.

Mr. BROWN (continuing reading):

> As we have said before, we hope that conditions will soon improve so that we can make an issue and certainly we could make a public issue upon these Americans which would undoubtedly go promptly. Otherwise we would have to liquidate by sale some of the securities and on this point we may point out that we have only about $15,000,000 Americans in British Government Treasury account, unpledged so far as regards either of the United Kingdom loans.
>
> This phase of the problem is a most important one.

Now, at that time, do you recall the height of the demand loan on December 7, the two loans?

Mr. WHITNEY. What?

Mr. BROWN. Do you recall the height of the demand loans on December 7?

Mr. WHITNEY. I think $175,000,000.

Mr. BROWN. Was that the highest?

Mr. WHITNEY. Yes.

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[1] In regard to the closing of the American market to British borrowing after April 6, 1917, see testimony on that subject, Hearings, Part XXIX, pp. 9014, 9024 to 9027.

Mr. **Brown**. The addition of another $150,000,000 would put them up to $325,000,000?

Mr. **Whitney**. As a matter of fact, in December they drew about $60,000,000, so that it shows how conservative they were, and $75,000,000 more in January. That was the story, I think, as I said yesterday, that they went up to a certain figure. We know, do we not, that when the third United Kingdom loan was sold and paid for, that there were $76,000,000 of the demand loan unpaid? We took that ourselves. You suggested that in the cable yesterday. From then on the demand loan increased to $345,000,000, when we went into the war, so that it went up to roughly $345,000,000.

Mr. **Brown**. At that time, in December, you undertook to furnish on the demand loans sums which, judging by the previous United Kingdom loans, there would be no way to liquidate? The biggest United Kingdom loan was $300,000,000.

Mr. **Whitney**. That is the net result of it. Are you forgetting the French?

Mr. **Brown**. I am talking about the United Kingdom.

Mr. **Whitney**. That is the fact. I said it went up, so that when we sold the U. K. loan on the 1st of February, there were only sufficient funds derived from that loan to bring down the demand loan, making it short by $76,000,000.

Mr. **Brown**. You say here, "We, of course, cannot encourage an operation which will bind up the New York market without some way of liquidating it."

What kind of method did you have in mind?

Mr. **Whitney**. We did liquidate it except for our own participation.

Mr. **Brown**. You did liquidate it to the 1st of February?

Mr. **Whitney**. We took it further.

Mr. **Brown**. For how many days, Mr. Whitney?

Mr. **Whitney**. I said it went up to $345,000,000 by April 6.

Mr. **Brown**. By the middle of February?

Mr. **Whitney**. It went right on up.

Mr. **Brown**. It went right on up?

Mr. **Whitney**. Certainly.

Mr. **Brown**. So that in effect you could consider in December 1916, judging by the standard of previous U. K. loans, that there was no possible way to liquidate the demand loan?

Mr. **Whitney**. Mr. Brown, I have explained before that we were working with all kinds of transactions, including British municipals. One of them we discussed, to the extent of £50,000,000, which is in the cables. It was necessary to get enabling legislation, which they got. We were discussing a transaction of $200,000,000 with the Canadian Pacific, as I said a moment ago, so that you can liquidate it. The net of it was, it was liquidated.

Mr. **Brown**. When was it liquidated?

Mr. **Whitney**. To February 1.

Mr. **Brown**. That $73,000,000?

Mr. **Whitney**. Seventy-six million.

Mr. **Brown**. Within a few days the British purchases put it back up again?

Mr. WHITNEY. Of course, we keep getting mixed up, because I talk banking talk. The loan was liquidated. When it started again, the banks who loaned the money had the chance to say if they would take any more of it. When a loan is paid off, it is liquidated, in ordinary parlance, and when he gives a new loan, that is new business.

Mr. BROWN. Can we not avoid technicalities?

Mr. WHITNEY. That is not technical; those are facts.

Mr. BROWN. The fact is that the British Government remained continually indebted to you and the New York banks from this time on until some time in 1919. Is not that correct?

Mr. WHITNEY. Excuse me, Mr. Brown, because at that time everybody was paid off except J. P. Morgan & Co.

Mr. BROWN. For a few days?

Mr. WHITNEY. For a few days. At that time we went back and asked them if they wanted to participate again, they had the option. So that when you say they were continually obligated, I am sorry, Mr. Brown, but that is not the fact. To answer the rest of your question, it is true that after the banks had been paid off—we had not been—but after the banks of New York City and the country had been paid off, very shortly thereafter they participated again, and then the demand loan was finally paid off in July 1919.

Mr. BROWN. So that the statement here: "We of course can not encourage an operation which will bind up the New York market without some way of liquidating it" is not quite what occurred is it?

Mr. WHITNEY. That is exactly what occurred, because remembering that fact and the fact that we felt under some obligation not to bind them up is the reason we paid off the other banks and retained the $76,000,000 ourselves, which gave them practically and actually, not merely technically, the right to say whether they would loan the money the second time.

Mr. BROWN. On that point, Mr. Whitney, I will offer for the record the cable of February 6, 1917, from Morgan in New York to Morgan, London No. 37352.

(The document referred to was marked "Exhibit No. 2651" and appears in full in the text.)

Mr. BROWN [reading]:

> For E. C. Grenfell. After payment yesterday for United Kingdom no. 3, loan no. 1 now stands at $8,790,274.67. Loan no. 2, $63,000,000. This is a figure which, as you can see, if added to materially in the near future through exchange purchases or otherwise, is likely to compel us to begin participating out no. 2 loan again almost immediately. We are apprehensive that this would surprise the financial community and that the sentimental effect so soon after the recent issue would be unfavorable. For this reason, we should think it advisable for you to begin gold shipments again promptly. Would it be possible to send, say, $100,000,000 within the next two or three weeks?

Mr. WHITNEY. Thank you; that confirms what I just said.

Mr. BROWN. It seems to me, Mr. Whitney, that that cable shows the loan was continuing. You were not using banking parlance here. You state: "This is a figure which, as you can see, if added to materially in the near future through exchange purchases or otherwise, is likely to compel us to begin participating out no. 2 loan again almost immediately."

Mr. WHITNEY. Quite.

Mr. BROWN. It is a continuous process, is it not?

Mr. WHITNEY. No, because they were paid off.

Mr. **Brown**. Is not that a technicality?

Mr. **Whitney**. No, no.

Mr. **Brown**. It says [reading from "Exhibit No. 2651"]:

> * * * is likely to compel us to begin participating out no. 2 loan again almost immediately.

Mr. **Whitney**. That is the cable which I was referring to, which merely gives full confirmation to what I said, that the banks were paid off. In this cable we tell Mr. Grenfell that by exchange payments, and so forth, we were going to have to begin participating out no. 2 loan again almost immediately. And as a matter of fact, we did.

Mr. **Brown**. The cable says you will have to.

Mr. **Whitney**. Yes, sir; "is likely to compel us * * *"

Mr. **Brown**. It is not really interrupted then, is it, Mr. Whitney?

Mr. **Whitney**. Mr. Brown, the fact is just as simple as daylight, that the participants in the two demand loans were paid off in full, except for us.

Mr. **Brown**. Except for you.

Mr. **Whitney**. So that therefore——

Mr. **Brown**. Let us take that, if we cannot agree on it in the banking parlance. We will say that J. P. Morgan & Co. remained from this time on into 1919 as creditors of the British Government on demand?

Mr. **Whitney**. Yes; certainly.

Mr. **Brown**. In large sums of money.

Mr. **Whitney**. I call $76,000,000 quite a lot of money.

Mr. **Brown**. That was one of the smallest sums, was it not, too?

Mr. **Whitney**. Before you were talking about our apprehension or our dislike to bind the banking community without knowing what we were going to do about it. We got assurances that they were going to take care of it, and therefore we felt it was right and proper for us to pay off the other banks, giving them complete option as to whether they wanted to participate again.

Mr. **Brown**. What would have happened if they had refused to participate again?

Mr. **Whitney**. They would not have participated.

Mr. **Brown**. What would have been the British Government's financial position in America, if those banks had refused?

Mr. **Whitney**. Somebody said the other day if your uncle were your aunt—I do not know.

Mr. **Raushenbush**. That is not such a bad question. Mr. Brown is trying to get the answer, and I wish you would try to answer it.

Mr. **Whitney**. I will try to.

Mr. **Raushenbush**. If the other banks had not taken part in a further participation could Morgan & Co. have carried them?

Mr. **Whitney**. If all the banks had refused to have gone in, probably, considering the amount of money which was raised, $345,000,000, as the demand loan was ultimately, it probably would have been more than we prudently would have carried, but if we had run into such an impasse as that with the banks refusing to participate, then probably the British Government would have had to expedite the shipment of gold faster. But, of course, the banks did not do it, because they believed, as bankers, that the loans which they were offered were good. And now you want to remember that we always had nearly 100 percent of American securities to cover the loan. As a matter of fact, it may be interesting to know that in April, of the $700,000,000, there were over $400,000,000 of American securities.

Senator BARBOUR. When you say American securities, you mean British-owned American securities?

Mr. WHITNEY. Yes; but I mean obligations of American organizations, and the Canadian Pacific Railway, which were listed; not all listed but American corporations, stocks, too.

Mr. RAUSHENBUSH. How much would Morgan & Co. have had to carry themselves, if they had not been able to get other banks to participate with them?

Mr. WHITNEY. We must start somewhere. What banks would refuse to do it?

Mr. RAUSHENBUSH. Let us cut out everybody but Morgan.

Mr. LAMONT. Why cut out everybody?

Mr. RAUSHENBUSH. I got an answer from Mr. Whitney that Morgans could have carried it all.

Mr. WHITNEY. I said could not have.

Mr. RAUSHENBUSH. I misunderstood you.

Mr. WHITNEY. The loan was $345,000,000. You are setting up some assumptions, that the banks declined, and in the next place that the British did not make further shipments of gold.

Mr. RAUSHENBUSH. I am assuming further shipments of gold.

Mr. WHITNEY. The demand loan was $345,000,000 on April 6, and went down, and it was $398,000,000 on May 5.

If all the banks had declined to come in, you ask the question if J. P. Morgan & Co. would have carried that. I was not a partner at that time, and I think I probably better let Mr. Morgan answer it, but I do not think I would have tried to.

Mr. MORGAN. I do not think we should have tried to.

The CHAIRMAN. The fact remains that if any considerable number of other banks had declined to participate in the loan, the situation would have been embarrassing?

Mr. MORGAN. The situation would have been more difficult and we would have had to try to find some other way.

Mr. WHITNEY. When you were absent here a few minutes ago, Senator, it was brought out that they had $400,000,000 of gold on April 1 that they were prepared to ship. I do not know where it is getting us to ask if they had not participated, because the banks did not refuse. Mr. Brown has a list of them. Aside from the Trio, where there were large amounts of money involved with relation to the assets of the banks, these pieces of papers were considered desirable. It caused unhappiness later, when, for other reasons, the liquidation of it was delayed, but as far as there not being any declinations, I think there were dozens of them, were there not?

Mr. LAMONT. As I recall it; yes. Mr. Raushenbush, if you were inquiring as to the attitude of these banks during all this period on the demand loans, let me say this.

That while of course their keenness might go up and down a little, according to the money market conditions, nevertheless, on the whole, a whole lot of banks which were offered participations were very glad to get the participations, for two reasons: One, the loan was excellently secured, in the first place; and, in the second place, because we always arranged a rate of interest on it which was attractive, above the going rate.

Mr. RAUSHENBUSH. I can understand that.

Mr. LAMONT. The British Government sometimes thought we favored the American banks too much by charging them a higher rate of interest, but, nevertheless, that was one of the factors which made the loan attractive.

Mr. RAUSHENBUSH. The thing which I did not understand, which prompted my question, Mr. Lamont, was this:

That these loans seemed to be coming along pretty fast, every so often, and you told the British not to come so fast, that they were not getting digested, and they held off, and they piled up in the meantime a big demand loan, and the third U. K. loan comes along, let us say in February, and it is not large enough in itself, being $250,000,000, to do more than pay off your participants in that connection and you are still $76,000,000 in the hole, if I may use that phrase.

Mr. LAMONT. Not in the hole.

Mr. RAUSHENBUSH. No?

Mr. LAMONT. We had $76,000,000 of a fine loan.

Mr. RAUSHENBUSH. You were creditors on a demand loan. Then the thing shoots up again. If you had tried to float another loan on March 1, that loan of $250,000,000 or $300,000,000 would not again have covered your demand loan?

Mr. WHITNEY. I do not know.

Mr. RAUSHENBUSH. Probably would not have.

Mr. WHITNEY. We did not.

Mr. RAUSHENBUSH. You did not. It was getting difficult. That is the complication in the situation which interests me, here. The borrowings of the British Government were not commensurate with the demand loan. They were not paying off their indebtedness by these demand loans. That was the complication to which I was addressing my question.

Mr. WHITNEY. Mr. Raushenbush, I was not trying to evade your question. I have said it a good many times, and I think both Mr. Morgan and Mr. Lamont have, that back in November we had been advising the British Government that deliveries under their contracts and the like would be very seriously growing for the next 5 months, which took us up to the 1st of March. It is certainly true. and of course that demand loan generally has not been taken up here yet, but the demand loan, in its essence, was a means of financing, pending refunding of obligations in some new series of operations. It is true, and there is no doubt about it, that the third U. K. loan did not pay off the demand loan by $76,000,000. It is also true that the immediate loans would run the $345,000,000 at that day up to a degree, but it is also true that during that period, which was a length of time of 2 months roughly, that there were all kinds of plans under consideration for further refinancing or refunding of the demand loans.

I mention it specifically, because that was the only one which was really satisfactory to them at that time, the Canadian Pacific for $200,000,000.

It is further true that $200,000,000 would not have paid off the demand loan.

Mr. Raushenbush. That is the point.

Mr. Whitney. In other words, it is almost impossible because of the concentration of the payments throughout this period to show it exactly as perhaps you have in mind that we could have done, but we had been saying for months at that time that this problem was going to be a difficult one and were urging them continuously to get themselves prepared and get this stuff over here ready to take up these operations.

Your premise is right, if we had done $200,000,000 by April 1, as we had hoped to do, and continued to have the Canadian Pacific, we would have had to go to London municipals and various other things which we had in mind.

Mr. Lamont. Mr. Brown, you spoke about our continuing interest in this demand loan up to 1919, which is perfectly correct. We did have a continuing interest. You will perhaps recall that after America entered the war, we were hopeful that some arrangement might be made between the British Treasury and the American Treasury, whereby this particular loan would be taken over with its securities, so as to leave the decks clear for American financing. The American Treasury, however, never saw its way clear to do that. They insisted that the demand loan be cleaned up entirely from the British Government, or ourselves, which was done.

I am saying that in allusion to your point that we had a continuing interest, which is perfectly true.

Mr. Brown. The question which I had in mind was the one Mr. Whitney outlined. He said the Canadian Pacific would not have liquidated the loan, the subsidiary financing, the London and Edinborough municipals, and so forth, all of which were demanded of the British.

Mr. Whitney. I referred before to enabling legislation for requisitioning securities, which had just gone into effect, and of course they did not continue it, but securities were coming in. I do not think that any of these things were what you could call demands. Various propositions had been presented, but I grant you, as the necessities became more drastic, one by one, they had been accepted abroad.

It is awful hard to plan what we would have done if things had been different, but certainly the record is chockfull of our intentions, urging on the British Government that they take adequate steps to meet their commitments.

Mr. Brown. Decidedly, but they did not take those steps.

Mr. Whitney. They did not take steps?

Mr. Brown. This is from the Treasury account and shows that from August 1, 1916, to December 1, 1916, shipments of gold amounted roughly to $380,000,000. From December 1 to April 5, they amounted to $424,000,000; slightly more in other words. The sales of securities from August 3 to December 1 amounted to $532,000,000, and the sales of securities from December 1 to April 5 were only $48,000,000. This is from the Treasury account, excluding collateral sales.

Mr. Lamont. That was sale of securities?

Mr. Brown. That was sale of securities. In the meantime, commercial agency expenditures from August 3 to December 1 had been

$469,000,000, which held up pretty well in the succeeding 5 months, at $427,000,000.

Mr. **Whitney**. This is just British?

Mr. **Brown**. This is just British. In other words, they shipped little more gold, and they sold less securities by nearly $500,000,000.

Your cables, as you say, Mr. Whitney, are full of urgings on the British to do something, but the figures seem to show that the British took no such action, relying on the one hand, on the amount of the advances through the demand loan in its place.

The thing in which Mr. Raushenbush and I are interested is that here in December the British were carrying on a demand loan program, if I may say that, in which the record of advances showed it was not possible—I won't say not possible because it is true there are all sorts of possibilities—but which did not show any utilized means of repayment.

Mr. **Whitney**. Mr. Brown, you talk about a demand loan program, but what you have got to remember, as has been pointed out here, is that there was a British Cabinet crisis in London somewhere in the first days of December. It is a fact that that upset all of these plans. You say the British did nothing about it. Your figures do not check with mine, but that is immaterial. What they did do in the early days of this year was to pass a law, which I said four times before this morning, enabling the Government to requisition, changing the whole obtaining of collateral or advancing of securities on a voluntary plan to a compulsory plan.[1]

So that that was one step they took. There was a lag in there, but at no time did we not have full collateral. I think the so-called demand loan, if I remember correctly, of December 1, had something like $700,000,000 collateral in their hands behind it.

Mr. **Brown**. We do not say it was a bad loan.

Mr. **Whitney**. I know, but you talk about a program.

Mr. **Brown**. I construe cable no. 33131 as a program during December; "we will take care of entire situation", and so forth.

Mr. **Whitney**. For December.

Mr. **Brown**. The operation in December put another $150,000,000 on top of the demand loan as it then stood, and I raised the point that no previous U. K. loan would have fully liquidated it, and I did raise the point whether or not you considered the third U. K. loan did not liquidate it and also that this involved the situation in connection with the Canadian Pacific arrangement which was ready, and that this, too, would not have liquidated the loan. In other words, you admit this situation in December——

Mr. **Whitney**. I do not admit anything. I assert it. In the second place, the question of having commitments is another thing which we were urging on them. Everybody knew that their contract orders were all culminating. All the purchases in this country, aside from that, were culminating. We had been urging them steadily to get ready to do this. Now in that connection there are two things which have been brought out: One is the Federal Reserve ruling, which upset the program and retarded it, although it is true we did not think we could put out the loan until after the turn of the year; and the second thing was the Cabinet crisis in England, which caused a delay in this thing.

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[1] See "Exhibit No. 4252", Report of the American Dollar Securities Committee, for a full discussion of the British mobilization of American securities, Hearings, Part XXXV.

The program all through was to create various means of financing, which they put on a longer time basis than the demand loan.

The demand loan was the interim means of creating payments, of creating dollars for the British with which to meet their obligations.

There is no question about the facts which you state, that those commitments were so heavy, that they came in during January with a third U. K. loan which did not pay off the full demand loan.

It is also true, looking at it from hindsight, that if we had done the Canadian Pacific loan, which we did not do at the request of the Secretary of the Treasury, obviously at that time it would have been $145,000,000 less than the demand loan.

But when you say that the British did nothing about it, I say there were various other plans. You should say there were the municipals, 50,000,000 sterling, $250,000,000, and supposing we had done that and things had kept steady, that would have paid off the demand loan.

Of course, I could have made a better presentation of it, because it was going on indefinitely. All the time the one thing the British Government resolved not to do, and we resolved not to let them do, so far as we could, was to undertake purchases which involved production in this country beyond what they were able to meet.

The alternative, which has been introduced as a threat, was that they would have to curtail. My interpretation is that that is what any normal prudent business man would do. If he saw his resources were limited, he would stop buying goods to meet the payment for them that he had bought. That could be gone into but it gets almost into the realm of fancy, does it not, where you see that the circumstances were different. They had been warned and informed that they could not buy goods here unless they could see themselves clear to cover their purchases in this country, and have their resources in position to be converted into dollars.

The demand loan was never anything but a very first-class loan. On December 31, when it was about $235,000,000, we had $700,000,000. After putting up $300,000,000 worth of collateral with the third U. K. loan on April 6, we had $700,000,000, of which over $400,000,000 were Americans.

The program goes along, and there was not an exact program of what we would do in February.

You referred to gold, and my figures here, by months, show that we received gold in December to the extent of $179,000,000, in January $114,000,000, February $102,000,000, and March $115,000,000. I am not a very good adder.

Mr. Morgan. $490,000,000.

Mr. Whitney. That is $490,000,000.

Mr. Brown. It is bigger than my figures and suppose we check it and get together on it.

Mr. Lamont. Maybe I am stupid about this, Mr. Brown, but why are you so worried about the British commitments in January, February, and March 1917, when, as the record shows, they made every payment that they had to make promptly on the dot, and they had lots of gold that was being shipped in and lots of securities? I do not see just what the point is to worry about.

Mr. **Brown**. The point which seems to me strange is this statement in this cable [reading from "Exhibit No. 2650"]:

> We, of course, cannot encourage an operation which will bind up the New York market without some way of liquidating it.

The fact remains that it was not liquidated at that time. For 2 years that loan hung on.

Mr. **Lamont**. What of it?

Mr. **Brown**. It seems a complete discrepancy.

Mr. **Lamont**. Well——

Mr. **Brown**. Here in December you entered upon an agreement to loan the British money but carried the loans on demand higher than the available refunding operations were ever able to take care of.

Mr. **Whitney**. Of course, you might put the construction on that, that we did not know that America was going into the war when planning, which we certainly did not at that time.

Mr. **Raushenbush**. There is one other alternative, if I may interrupt, on that comment. This is something I do not understand yet. For instance, on the securities, they seemed to drop down from $432,000,000 to $48,000,000, sales of securities.

Mr. **Lamont**. That was the sale of securities?

Mr. **Raushenbush**. That was the sale of securities.

Mr. **Lamont**. But they were shipping a great deal for collateral, to hold on reserve.

Mr. **Raushenbush**. Collateral for your loan.

Mr. **Whitney**. When they first started they had the British Treasury securities, which were bought outright from their nationals and then they had A. and B., which were borrowed, and then ultimately the requisitioning of securities. The securities we sold were securities under Treasury account, under the first plan. They never instructed us, although we had an absolute right under hypothecation on the indentures to sell them, if need be, because they had certain ways to pay back the lenders, but under A. and B. they were very expensive.[1]

All that comes up later under subrogation, when they try to get them back so as not to have a forfeit.

In referring to the $15,000,000 of credit under the Treasury account, under their instructions those were the only securities which we sold and had free sale of. The requisitioning took all those securities, so that they were all available. Yet, at that time, under the terms of the demand loan that was arranged specifically here in December, we could have sold A and B securities, which were $135,000,000. That is where we got that figure yesterday. We had a perfect right to sell them if we had wanted.

Mr. **Raushenbush**. That applied to the outstanding loans and not the necessity of new money.

Mr. **Whitney**. Excuse me. We always had the right, under the demand loan, if we wanted, to sell any securities behind it. We never, as a matter of fact, did, because it would have involved the British Government in very serious forfeits in connection with those securities.

Mr. **Raushenbush**. You seem to have been very much worried, and properly so, in impressing upon the British Government all the way through here, devices, ways and means, of getting new money. That, I think, is pretty clear.

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[1] In regard to the various security schemes, see "Exhibit No. 4252", Hearings, Part XXXV.

Mr. WHITNEY. Certainly.

Mr. RAUSHENBUSH. The thing which struck my attention is after this Federal Reserve warning and the conference between Hamlin and Spring-Rice, the Government seemed to show a great deal less worry than at any previous time about it.

Mr. WHITNEY. We did not know that.

Mr. RAUSHENBUSH. They seemed to let the things slide, and the sales here were down, and all the plans about municipals, Canadian Pacific, or anything else, were entirely brushed aside and they do not seem to bother about them. That prompts the question.

Mr. LAMONT. That illustrates how Governments work at times, Mr. Raushenbush, and how the British Government was preoccupied at that time with the conduct of the war, and feeling all the time that they had plenty of gold, and that they could get plenty of securities to take care of their American situation, they were dilatory in spelling it out to us. There is no doubt about that. We were constantly pressing them, as you say, and as we have pointed out, and their answers were not always complete, but, as Mr. Whitney has pointed out in detail at least one-half a dozen of times, they finally came through with this immense quantity of gold and securities and the situation was cleared up. That is all there was to that.

M. BROWN. The demand loan was not liquidated, Mr. Lamont?

Mr. LAMONT. The demand loan was not liquidated. The American Treasury, when we got into the war, refused to liquidate that, so that we carried it on for quite a long time, as you have pointed out, with the best possible security.

Mr. MORGAN. We could have at any time sold out the securities for the demand loan and gotten it paid off, if we wanted to, but the United States Treasury asked us not to.

Mr. RAUSHENBUSH. Mr. Morgan, if at any time you had tried to take the $700,000,000 or so of securities, which were behind the demand loan, let us say in February or March, and sold them fast, that would have broken the market over here terrifically, would it not?

Mr. WHITNEY. Certainly.

Mr. MORGAN. It would have been paid, and there was enough there to do it, to clean up the loan.

Mr. BROWN. As Mr. Whitney pointed out, it would have cost the British Government heavy penalties?

Mr. LAMONT. Why suggest to us that we would be capable of advising a very unwise course?

Mr. WHITNEY. We would not do it for several reasons.

The CHAIRMAN. Before recessing this noon, the Chair feels that it is proper to make a statement of Committee plans. It had been our earnest expectation to finish with this immediate hearing this week, to permit the witnesses to go home without need of having to return, but the individual members of the committee are embarrassed at this time by all manner of things moving in in a legislative way, and it is deemed altogether advisable that when the Committee finishes its work this afternoon, that a recess be taken until a week from today, at which time we shall have to ask the witnesses to be back.

In the meantime Mr. Raushenbush, I am sure, will indicate to the witnesses what records and what material will be needed at that time, and thus enable you to get back into your files a great deal of the material you have brought with you.

I do not know how long and how well we are going to get on this afternoon with a bonus issue pending in the Senate. There is just a little danger that the Committee may be forced to run back and forth frequently and we may not make much progress, but we will hope for the best.

Mr. WHITNEY. Will we be able to get the 5 o'clock train this afternoon?

The CHAIRMAN. We will have that understanding now, that we will quit in time so that you can catch the 5 o'clock train.

Mr. LAMONT. Thank you so much.

The CHAIRMAN. The Committee will be in recess until 2 o'clock.

(Thereupon, at 12:10 p. m., a recess was taken until 2 o'clock this afternoon.)

AFTER RECESS

The hearing was resumed at 2 p. m., pursuant to recess, Hon. Gerald P. Nye (chairman) presiding.

TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, AND GEORGE WHITNEY—Resumed

The CHAIRMAN. Proceed, Mr. Brown.

Mr. BROWN. Mr. Chairman, continuing the morning discussion, I wish to offer for the record cable of December 9, no. 28122, and cable of December 11, no. 28140, conferring broader powers upon J. P. Morgan & Co. in handling the demand loan at this period.

(The documents referred to were marked "Exhibits Nos. 2652 and 2653" and are included in the appendix on p. 8792.)

Mr. BROWN. They are formal documents. The cable of December 9 encloses a letter from John Bradbury, Secretary of Treasury. December 11 encloses a letter from the Bank of England, under which it appears that the Bank of England is not quite sure that it is the obligor under loan no. 1.

Mr. RAUSHENBUSH. Just as a matter of curiosity on that, Mr. Whitney, that demand loan had run into scores of millions, had it not, by this time when the Bank of England seems to express the opinion it did not know it was the obligor of the loan?

Mr. WHITNEY. Apparently there was some question of misunderstanding on the other side of the water as to whether this so-called Exchange Committee was taking over the Bank of England's obligation. There is nothing in our record at all that substantiates it, but that is what this says, and that is why they confirmed it. We had always informed our participants that we had always understood ourselves it was the Bank of England. That is the answer.

Mr. BROWN. I offer for the record a cable dated December 5, 1916, no. 26950, from E. C. Grenfell, and merely note in passing that it cites the discussion of a secured loan on that date.

(The document referred to was marked "Exhibit No. 2654", and is included in the appendix on p. 8793.)

Mr. **Brown.** I offer for the record a cable of December 6, 1916, no. 33077, which continues the discussion of a collateral loan.

(The document referred to was marked "Exhibit No. 2655", and is included in the appendix on p. 8793.)

Mr. **Brown.** I offer for the record a cable of December 18, 1916, no. 33518, from J. P. Morgan to E. C. Grenfell.

(The document referred to was marked "Exhibit No. 2656", and is included in the appendix on p. 8794.)

Mr. **Brown** (reading):

> Since my return I have looked into things pretty closely and am of course impressed anew with the difficulties we have to encounter in getting what the Allied Governments are entitled to expect. As I see it, even with the best will in the world and the utmost pressure, we cannot secure by loans the amounts the Governments want as fast as they might have them. The public which will invest simply in bonds is more or less limited and while it is increasing it has not unlimited investing power.

I would conclude from this that the discussion we had on that earlier cable is in Mr. Morgan's mind here, that the loan capacity of the market is not sufficient to liquidate the demands that are being put upon the demand loan.

Mr. **Morgan.** As quickly as they came; yes. That is probably what it meant. That is what it says.

Mr. **Whitney.** As quick as the demands.

Mr. **Brown** (reading from "Exhibit No. 2656"):

> We must, therefore, turn to another resource which we have hardly as yet tapped and which I believe could be used to greater advantage in spite of being very distasteful to the British Government, that is the selling of some of their equities. There are, for instance, in the borrowed collaterals a very large amount of Canadian Pacific Railway shares. I quite understand that the Government does not like to enforce the sale of these shares, but I believe there are a large number of capitalists who would be glad to purchase something in which there is a certain speculative element, who would for instance buy $10,000,000 of some security which might rise when they would be disinclined to invest $2,000,000 in the form a permanent bond.

The British never did put up any other of their equities except these Canadian Pacific shares, did they?

Mr. **Whitney.** This, Mr. Brown, I think was just a question of trying to search out every possible means of taking care of the British requirements, just as we talked this morning. Further down it speaks of the Forestal, Atlantic Leased Lines, as having been up at various times before. At those times the owners of those various properties had not been willing to part with them. We are merely reiterating suggestions before made at various times, that perhaps there was another resource in the way of selling equities in companies not known in this country. The Canadian Pacific Railway securities, of course, were listed on the New York Stock Exchange and really are considered American securities. These were just another one of our constant efforts to suggest means whereby the British Government could get additional resources.

Mr. **Brown.** You say in effect, "We cannot borrow in this market against bonds fast enough for the Government's needs; now, therefore, won't the Government please put up something else that will make it easy for us to raise money?"

Mr. **Whitney.** That is the general idea.

Mr. **Brown.** But the Government did not, did it, ever put up any of these equities?

Mr. **Whitney.** Because the occasion after all did not arise. It does not happen like that [snapping fingers], you know.

Mr. **Brown.** I understand that, but the fact remains it did not put up any of these equities, did it?

Mr. **Whitney.** No; I do not think so. The Cuban Railways is what I was hesitating about, but I think the answer, general speaking, is "no" to that.

Mr. **Raushenbush.** Equities, as I get it, Mr. Whitney, simply means stocks in contrast to bonds. Is that what that is about?

Mr. **Whitney.** Mr. Raushenbush, of course this is suggesting a completely new theory of financing. Up to the present time the securities which they had been collecting were securities which would either be available for sale in this market, in other words, American stuff, or else well-known companies like British railways and South American bonds, to use the bonds for collateral purposes.

This is the first concrete suggestion that they were to go into an entirely different thing where they were to collect the ownership of something in South America, or Forestal, which I think, is in Brazil, and sell the whole control of the company. As Mr. Morgan says, a certain type of money is interested in a more or less promotional scheme rather than a fixed investment.

Mr. **Raushenbush.** As I gather, the control of these stocks in effect represented the British commercial empire?

Mr. **Whitney.** That is right.

Mr. **Raushenbush.** That gave them the ownership of means of production around the rest of the world. Those are the things they never did put up over here.

Mr. **Whitney.** No; but it was on December 18 that we made the suggestion. Perhaps if they wanted to continue to purchase in this country they might have to look into something which, as Mr. Morgan says here, would be very distasteful to them.

Mr. **Raushenbush.** I was interested in it because of that Balfour memorandum that was read in this morning, after we got into the war, when he pointed out that the Government over there was financially in a shape where they had to be helped out on July 1; and, even there, there is no discussion of these equities. You and I and everybody know that they were available. They could have been put up, I suppose, could they not?

Mr. **Whitney.** You are now talking as to whether we could have used them?

Mr. **Raushenbush.** You could have used them; yes.

Mr. **Whitney.** Whether they could have been used in this country?

Mr. **Raushenbush.** Yes.

Mr. **Whitney.** Of course, that is a very questionable point, the question of introducing completely unknown companies all over this country, or getting American capital, which, as we have said before, was not then used to investigating very much, anyway, as to whether they would go to the length of buying equities in foreign countries, which American capital had never done before. We frankly suggested this, but I think that we thought it would be a very long educational process before it could be of any very great use to us. Of course, it never did happen. I do not remember even whether they answered this cable. It did not happen. But it would have been long, hard work to get people to buy, because it is not something to sell the public.

Mr. **Raushenbush.** They did not seem very much interested in it, as I remember the cable interchange.

Mr. **Whitney.** I do not think there was any doubt about it that they wanted to hold on to their equities, no doubt about that.

Mr. **Raushenbush.** They wanted to hold on to their commercial empire.

Again let me say that that interested me because later on, when the question of going on with their financing after we had gotten into the war came up, there was still no proposition on their part to try this out. We might differ on whether American financiers would not see Royal Dutch, the Argentine railways, and Cuban railways, whatever they had shares in, as very interesting things for America to take over. But the natural effect, we can probably agree, would have probably been to lose to Great Britain her commercial empire at the time she was winning a military war.

Mr. **Lamont.** Here is a suggestion of two or three securities, I suppose, out of tens of thousands of securities, that constituted her commercial empire, Mr. Raushenbush, and the period you speak of, of course, we have nothing to do with.

You are speaking now of Balfour and the July situation, and so forth. That was entirely a matter between the American and the British Governments.

Mr. **Raushenbush.** I still do not make myself clear, Mr. Lamont; I am sorry. What I am trying to get through my own mind is this situation we seem to be at some divergence about, what happened after the third U. K., after February, as it is described in Balfour's words.

We do not want to challenge it at all, and do not challenge it.

He said that by July they had come to the end of their resources. It just struck me as an interesting thing that perhaps they really had not, in the sense that these equities were at least a method that might have been used.

Then I was trying to get at the possible reasons not only why they did not use it then, but why you got no answers here, and I was making a suggestion for your comment that if Britain had had to turn over the Royal Dutch or Argentine railways or Indian cotton mills and all the things she had, that would have amounted to turning her industrial empire over to the hands of the United States. She would have lost her industrial empire while she was winning a military war. She would not have anything to do with it.

Mr. **Whitney.** Of course, Mr. Raushenbush, you, I assume, have had the opportunity to see the Treasury records of this talk with Mr. Balfour, which, of course, we have not.

I assume from what you say that the Treasury did not discuss whether they wanted to buy British equities or not. This suggestion we make here is right in the face of a suggestion, as the end of the cable says [reading from "Exhibit No. 2656"]:

> We understand that it takes time to carry through pieces of business like those mentioned.

In other words, it was merely what we were doing every time any of us in New York had an idea of some possible source of getting available resources; we put it up to Great Britain. Next day we would have another idea, and they were sort of thrown into the hopper and put up because we were trying to search every possible means.

This, as I say, is something that we did not believe would be productive of any very great amount of money in any single transaction. It was frankly just an effort to search out a new method, as Mr. Morgan says in his cable, something that he knew would be distasteful but which might be necessary if they were to continue on their program of purchasing in this country.

Of course, there is no question but the United States entry into the war changed that thing materially. What the conversations were between the British and the United States Treasury we, of course, have no means of knowing. All it says about it is in this cable of December 20, 1916 [reading from "Exhibit No. 2657"]:

> Discussed with Treasury who will communicate same to Chancellor of the Exchequer, and hope for some message from the authorities in reply to your clear pronouncement.

I do not know why they never answered it specifically, except that as we got on we did do the third U. K. I do not know why they did not answer it. I think we probably did not press it, certainly, because some of us in the securities end of the business at that time thought it would be a very difficult thing to make good on, I mean, to get any real money out of it.

Mr. RAUSHENBUSH. You may be quite right on these transactions here in this country. You had the job of selling in the course of all this financing, a lot of good American securities, did you not? That was part of the process. I take it you found out that the market would take a certain amount of them every week but no more. That was part of the mechanics of selling them, was it not? You had to do that fairly slowly. And yet those were American securities.

By the way, did you put them on the market or did you offer them to various banks individually, all these American securities?

Mr. WHITNEY. We sold almost exclusively through brokers of one kind or another, or to dealers, and in certain rather isolated cases, we sold to insurance companies. Of course, some were sold just on the stock exchange. Bonds were sold all kinds of ways, depending on the size of the blocks.

Mr. RAUSHENBUSH. You did not take them individually to the banks and say, "Here is a good block in which you might be interested"?

Mr. WHITNEY. In certain instances we sold them to banks. They bought them for the carry, and the dealers sold them. We did practically no retail selling on them except certain insurance companies. I can think of one instance, one bank that was in the habit of running a bond trading account, a short account with certain dealers. But by far the bulk of it was just through brokers and/or dealers who would distribute it.

Mr. RAUSHENBUSH. About how many of these securities would the market take without breaking? Could you do that in millions of dollars?

Mr. WHITNEY. I remember one day we sold $34,000,000 of them, but I should think the average was, as it says in the cable here, day in and day out about 2½ million dollars a day and that, of course, depended on conditions.

Sometimes they would not take it. It depends how they came in and were made ready for delivery. Of course, it is awfully hard to give a specific answer to that, but the average was about 2½ million dollars a day when we had the more current type of obligations.

Mr. RAUSHENBUSH. This questioning I was doing before this really depends on Balfour rather than on you.

Mr. WHITNEY. Of course, we did not know anything about that.

Mr. RAUSHENBUSH. Balfour's memorandum was to the effect that by July, at the rate they were going, the British were "bust", if we may use a vulgar phrase about either Balfour or the British, or at least unable to go on any further.

Mr. WHITNEY. Go on purchasing.

Mr. RAUSHENBUSH. The question I was interested in was, supposing we had not gotten into the war—not looking at it from your standpoint at all, but just from the standpoint of the British Treasury—whether the crisis would not have come along there about July 1, a month later or a month earlier, when they would have had to put up these equities and sell their industrial empire over here.

Mr. LAMONT. Who knows? As I understand it, you are saying this, Mr. Raushenbush, and I want to be sure that I get you right:

You say British citizens either voluntarily or under the compulsion of law allowed three or four billion dollars of American and neutral securities to be sold over here or pledged. After they had completed all the mobilization of securities under the law, which they had not, but after they had done that, then the next natural step might have been for them to see whether they could dispose of some of these equities held by British investors in South America and all over.

It was manifest that the British investors were reluctant to dispose of those. Certainly it was. They had been reluctant to dispose of any of their investments, but they had done it partly as a patriotic duty and then after that because they were commandeered, so to speak, under the law.

Mr. RAUSHENBUSH. Can you describe a little more fully for the committee what that is? We touched on it this morning. You just referred to it as commandeering. How did they get those securities here. Was that a capital levy, or what was it?

Mr. LAMONT. That is alluded to in several of the cables. Mr. Whitney mentioned that once or twice this morning.

Mr. RAUSHENBUSH. What was the effect? That did not take away from people their property; it simply forced them to put it up at the Government's disposal, is that right?

Mr. LAMONT. Yes, and to take British consols or British exchequer notes, whatever it might be, in place.

Mr. MORGAN. War loan bonds, mostly, they took in exchange for them.

Mr. BROWN. Have you the report of the American Dollar Securities Committee there? We could put that in the record at this point to be relevant.[1]

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[1] Introduced later as "Exhibit No. 4252", Hearings, Part XXXV.

Mr. **Whitney**. May I read just one paragraph from the report of the American Dollar Securities Committee, which is this so-called exchange committee? It says, and this is their official report:

> On the 24th of January 1917 the Defense of the Realm (Securities) Regulations nos. 7c, 7d, and 7e came into force which gave the Treasury power to acquire securities, and placed restrictions on the disposal of same. While securities continued to be received on deposit, such securities were to be subject to any orders that might be issued by the Treasury under the regulations. The Treasury notice under these regulations, dated 30th January 1917, stated the conditions under which securities could be sold abroad, and placed upon the American Dollar Securities Committee the duty of issuing the necessary permits.

I do not have a copy of the law, but it was done under the door of General Regulations.

What, in effect, was meant, was that they could force them into Schemes A and B.

Excuse me. Here further on it says:[1]

> The general effect of the order was to make the securities specified the property of the Treasury as on the 17th February 1917 including the right to dividends payable on or after that date, and to require the proper persons to take all steps necessary to effect that purpose.

Of course, Mr. Raushenbush, when you refer to the question of July, it is obvious, is it not, that after we came into the war it would have been even harder to create a brand-new interest in securities up to then completely unknown to the American public?

We thought it would be difficult enough long before the war, or several months before the war. The net of it is that since the war the American public has never been interested in going into these foreign British securities, most of which are listed.

Mr. **Raushenbush**. And a great many of which are closely held.

Mr. **Whitney**. Certainly.

Mr. **Raushenbush**. I would not think that would follow as a conclusion. The bond market, as this points out, is a different thing from the stock market.

Mr. **Whitney**. Entirely.

Mr. **Raushenbush**. Different people interested. Here I am sure Mr. Morgan is going to agree. Surely, if the American financiers saw the opportunity to take at a reasonable price what the British had spent a couple of hundred years building up, a commercial empire in the Argentine, the oil fields, and so forth, they would, as shrewd businessmen, have been glad to take that opportunity.

Mr. **Morgan**. I am not at all certain that you are right about that, Mr. Raushenbush. They did not want the responsibility of managing them. If they took over the control of a thing they would have to manage it, and the management of a thing five or six thousand miles away is not so easy to the American mind as it is to the English mind, because they have had less experience at it.

It would have taken a long time to persuade a good many gentlemen whom I used to know quite well, who were willing to buy things—if they thought they had a strong British group with them who managed it, they were perfectly willing to take a part and sell back the shares to the British group later on if that relieved them at all for the moment. But to buy the whole of a company, they were not out for creating a commercial empire all over the world.

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[1] Introduced later as "Exhibit No. 4252." See Hearings, Part XXXV.

Do you see what I mean there?

Mr. **Raushenbush.** I defer to your judgment on the American investing habits.

Mr. **Morgan.** The theory of management is that troubles are very great if you have to deal with a thing six or seven thousand miles away from you.

Mr. **Raushenbush.** Surely. Do you not think they would even have been willing, if this thing was dumped in their laps, at pretty much a reasonable price, to have taken a considerable share of those things? Those were good things.

Mr. **Morgan.** They might have done it. That is what we hoped they would, if they were properly coached.

Mr. **Whitney.** Do you not think that they thought the opportunities in this country were even greater than abroad?

Mr. **Raushenbush.** I do not know.

Mr. **Brown.** If I may break in on that, the fact remains, it seems to me, that the suggestion was made in pretty definite form in this cable [reading from "Exhibit No. 2656"]:

> * * * while I understand the exceedingly disagreeable character of our suggestion our advice is definite as it has been before, that we see no other way of accomplishing the raising of the necessary sums on this side.

Mr. **Whitney.** That is what I said.

Mr. **Brown.** I judge from Mr. Morgan's remarks that while the American market might not have been particularly glad to have these, that being a debate we have no way of settling because they never came, at this point the commercial fabric of the British Empire was being endangered by its American needs.

Mr. **Morgan.** I think you figure the thing would go to an amount that is far in excess of anything that we could possibly have managed. The British commercial empire does not rest on 5 or 10 securities. There are hundreds and hundreds of them, and closely held, at that.

Mr. **Brown.** Did you, Mr. Whitney, offer the answer to that, 28406?

Mr. **Whitney.** It is a very inadequate answer.

Mr. **Brown.** Such answer as the cables seem to make.

Mr. **Whitney.** Cable 28406? I just read the first paragraph of it. It goes on to say what I referred to this morning:

> Treasury ask me to inform you that Municipal Act was introduced in Parliament Monday, and it is hoped will pass before Christmas.

(The document referred to was marked "Exhibit No. 2657" and is included in the appendix on p. 8794.)

Mr. **Whitney.** That is the enabling legislation to permit British municipals to finance over here.

Mr. **Brown.** I offer for the record a cable of December 20, no. 33604, from J. P. Morgan to E. C. Grenfell.

(The document referred to was marked "Exhibit No. 2658" and is included in the appendix on p. 8795.)

Mr. **Brown** (reading):

> Without committing ourselves we have no hesitation in saying that it is our present opinion that if the money market works around in better shape as we rather expect and unless something very radical happens to change the situation here, we should hope to be able, some time in January, to arrange for a very considerable secured loan, terms, date of maturity, and all other

questions to be settled when we get a little nearer to time. It is at present our idea that this secured loan would have to be of very early maturity in order not to interfere in any way with the market for the much desired but still very doubtful long time unsecured loan. In connection with the foregoing we feel impelled to call your attention to 33559 which you will appreciate might have a bearing upon the situation.

Do you recall what it was that would have a bearing upon the situation?

Mr. WHITNEY. No. We do not have it here, do we?

Mr. LAMONT. Yes. It is page 1045, Mr. Morgan's cable.

Mr. BROWN. 33559?

Mr. LAMONT. 33604.

Mr. MORGAN. It refers to cable 33559.

Mr. WHITNEY. It suggests it has to do with the requisitioning of securities, but I do not know of my own memory.

Mr. BROWN. You do not have that cable, do you?

Mr. OLDS. You did not take a copy of it, but I think you saw it.

Mr. NICHOLS. That is one of the missing ones.

Mr. WHITNEY. Well, I do not know. I guess my guess was wrong.

The CHAIRMAN. When you speak of it as a missing one, that the record may be clear, is the committee to understand that endeavor was made to locate that particular communication without success?

Mr. WHITNEY. I assume so. It is one of those they asked for that we could not find. It may have to do with an entirely different subject.

We have not been able to locate it. I do not know what it is. I did not know it was missing.

Mr. BROWN. I offer for the record the answer to the foregoing cable, the cable of December 27, 1916, 28559.

Mr. LAMONT. By the way, Mr. Brown, this statement you have just read shows how the situation had changed in the American market.

Mr. MORGAN. Money market.

Mr. LAMONT. Yes; the American money market, very considerably within a comparatively few days, a change for the better.

Mr. BROWN. Oh, yes; that is the purpose of putting it in here, to show the situation.

Mr. WHITNEY. Which is the one you refer to now?

Mr. Brown. 28559, of December 27, 1916.

(The document referred to was marked "Exhibit No. 2659" and is included in the appendix on p. 8795.)

Mr. BROWN (reading):

> As regards question of maturity of collateral loans, if it eventuates, however, Government feel strongly subject to any overruling consideration that may be present to your mind that it would be desirable to have 3 years and 5 years issue as in case of last loan.

On December 27 how could there be any question whether there was going to be any collateral loan or not? What do you suppose London had in mind here?

Mr. WHITNEY. We did not say we would do one; we said we were hopeful of doing one. We had, without committing ourselves.

Mr. BROWN. I offer for the record cable of December 26, 1916, no. 18554, from Harjes, just in passing noting that the French are not very well informed of the situation.

(The document referred to was marked "Exhibit No. 2660" and is included in the appendix on p. 8795.)

Mr. Brown. I offer for the record a cable of December 27, 1916, in answer to the foregoing. It is no. 30100.

(The document referred to was marked "Exhibit No. 2661" and is included in the appendix on p. 8796.)

Mr. Brown. The relevant passage in this is [reading]:

> We are obliged to begin the educational process, to a great extent all over again, but, of course, the process ought to be less difficult this time.

That seems to me somewhat in contrast with cable 31778, which, as I remember, is in the record. It said that the process must begin at the bottom of the hill all over again.

This is but a matter of 3 weeks later.

Mr. Whitney. We found we were not so far down the hill as we thought we were.

Mr. Brown. On the second page of the edition of that cable that I have——

Mr. Whitney. 30100 again?

Mr. Brown. Yes; at the beginning of the first paragraph—it says [reading]:

> As to new financing, we are waiting upon word from the conference in London of the Allied financial representatives.

What word did you receive from the conference in London of the Allied financial representatives?

Mr. Whitney. That letter gives you some indication of what it was from the point of view of Mr. Ribot.

Mr. Brown. Yes.

I will offer for the record a letter of December 31, 1916, from Mr. Harjes to Mr. Morgan.

(The document referred to was marked "Exhibit No. 2662", and is included in the appendix on p. 8797.)

Mr. Brown. But, Mr. Whitney, this letter does not discuss what the conference of Allied financial representatives found as far as American financing was concerned, does it?

Mr. Whitney. I would like to read it, to be sure; but my recollection is it says on about the second page, pretty well down toward the end, about half way through the letter, I should think [reading]:

> Mr. Ribot said he had only spoken in very general terms to them in London (as he was so busy with the note and other things) and had not discussed the American financial situation in detail, but that was apparently the impression he had gathered.

Of course, before that he quotes what Mr. Ribot had said. Do you want me to read it?

Mr. Brown. No, I think this paragraph you read is significant. But in contrast to 30100 it says, "We"—that is J. P. Morgan & Co.—"are waiting upon word from the conference in London of the Allied financial representatives."

Mr. Whitney. Apparently they did not come to any conclusion.

Mr. Brown. That was the conference, according to this letter of December 31, in which the reply to the United States peace note was also drafted, or at that time.

Mr. **Whitney**. Apparently it would certainly seem, would it not, that they had not come to any definite conclusion?

Mr. **Brown**. But your negotiations on this loan were already underfoot, were they not, Mr. Whitney?

Mr. **Whitney**. This cable to which you are referring now has to do with French financing, and that has to do with British.

Mr. **Brown**. 30100.

Mr. **Whitney**. That is sent to Harjes, in Paris. You read a cable in which they inquired where they all stood; and this is a cable to Harjes, is it not, no. 30100?

Mr. **Brown**. That is right.

Mr. **Whitney**. Naturally Harjes' business had to do with French financing, not British.

Mr. **Brown**. The cable says [reading from "Exhibit No. 2661"]:

> The only concrete effect of the statement apparently has been first in the distinct curtailing by Great Britain of her purchases here.

And so on [continues reading]:

> Of course, both these developments are distinctly to the disadvantage of American trade.

You have been discussing Canada and British financing. Then the paragraph opens [reading]:

> As to new financing.

Not necessarily new French financing.

Mr. **Whitney**. No; maybe I have misunderstood your question.

Mr. **Brown**. The same cable goes on at the end [reading]:

> E. C. Grenfell cabled us that they would not attempt to give us their further views as to future financing in America until after the conference which you mention.

Mr. **Whitney**. I am afraid I missed your inquiry.

Mr. **Brown** (reading):

> Meanwhile, in reply to inquiry, we have told E. C. Grenfell that sometime after the New Year, if possible, before February 1, we should hope to be able to put out a new British short-term loan.

It appears from this cable that you were, as the cable states, awaiting word from that conference at which the Allies rejected the American peace offer before you proceeded with any new financing.

Mr. **Whitney**. What is the point of your question? I am afraid I do not understand it.

Mr. **Brown**. Simply that you were proceeding at this time with the negotiation of a loan.

Mr. **Whitney**. Certainly.

Mr. **Brown**. I offer for the record cable of December 28, no. 33836, in which there is distinct negotiation in regard to this third U. K. loan before the answer from Mr. Harjes, and which, as far as the record shows, is the only comment on this very important conference of the Allied officers in London, where, as I said, there were not only finances but peace being considered.

(The document referred to was marked "Exhibit No. 2663" and is included in the appendix on p. 8799.)

Mr. **Whitney**. You will certainly concede that we were only concerned with financing, and you have been reading cables steadily—have you not?—from the time where we said there had been a change and we hoped for more after the turn of the year; if conditions continued to improve, as we hoped they would, we would be prepared, too.

Now these other cables are carrying along that discussion. Certainly. The cable you now refer to is giving some more of the facts to Mr. Grenfell with which to continue those discussions.

As to Mr. Harjes, we advised him very roughly of where we are going with the British. There is no negotiation yet.

Mr. BROWN. You say you are waiting upon word, and the word does not seem to be present there.

Mr. WHITNEY. There are subsequent cables. We know from Mr. Harjes' letter they have not had their meeting yet.

Mr. BROWN. This cable to Harjes that says you are waiting upon word is December 27, and there is no evidence of the word. However, I think we can move along on that.

Mr. MORGAN. The word came to us from Mr. Harjes in the letter dated Paris, 31st of December. That was the first we heard from them.

Mr. BROWN. But the loan was well under way before that was received.

Mr. WHITNEY. Oh, no. It takes two to make a trade, does it not? We have been making some suggestions to the British Government, and right through this date, December 28, we were still waiting word from them.

Mr. BROWN. I offer for the record the answer to Mr. Harjes' letter, which is a cable of January 29, 1917, no. 30397.

(The document referred to was marked "Exhibit No. 2664" and is included in the appendix on p. 8800.)

Mr. BROWN. Speaking again for a moment of cable 33836, which is already in the record, we will draw attention in passing to the phrase [reading from "Exhibit No. 2663"]:

> The United Kingdom notes are still largely held by friendly banking institutions.

And paragraph 3, the last sentence:

> In fact, as former Chancellor and the Governor have both pointed out, it is important that we should keep ourselves prepared for further operations and be able to act on a large scale in temporary emergencies as at present.

The comment on that is, to my mind, simply a comparison between the enormous growth of the demand loan and the expression that seems to be here that J. P. Morgan & Co. should be kept liquid for temporary emergencies, whereas the demand loan had become very rapidly a permanent feature, had it not?

Mr. WHITNEY. Certainly not.

Did you read carefully to yourself that last four or five words?

> Temporary emergencies as at present.

It was just about 10 days after the British told us if they could secure another $150,000,000 for December on top of the $175,000,000, that would see them through December. It is now December 28. So that ties in, it seems to me, Mr. Brown, completely with what we talked so long about this morning, about the immediate emergency.

Mr. BROWN. I agree with you, Mr. Whitney. You and I seem to agree entirely on this.

At this period you had made tremendous advances on the demand loan which you considered temporary. You were searching around, you were asking the Britsh to send over their equities, and you were asking the British to go through with the municipals; you were considering, in the offing, the Canadian Pacific and a number of operations—so that that advance on the demand loan would, in fact, be temporary.

Mr. WHITNEY. Certainly.

Mr. BROWN. The British declined all of them.

Mr. WHITNEY. Oh, excuse me.

Mr. BROWN. Or they were not consummated.

Mr. WHITNEY. Not any of them.

Mr. BROWN. They declined equities.

Mr. WHITNEY. They never declined it, but the circumstances changed. You put entirely the wrong emphasis there on it. They told us in that same cable they passed the enabling legislation for the municipals. The Canadian Pacific, this morning I testified six or seven times to the fact that we were prepared to do it in April, and stopped doing it at the request of the United States Secretary of the Treasury.

The equities we put up as an additional thought for the first time in that cable you read never came to fruition, it is true. The others were all ready.

Mr. BROWN. Neither did the municipals.

Mr. WHITNEY. No; because it is certainly an historical fact that we entered the war on April 6, and at that time the whole money market was preempted, naturally and properly, by our Treasury.

Mr. BROWN. By April 6 the demand loan was at a height that any of these, as you testified this morning, the Canadian Pacific, would not have taken it down.

Mr. WHITNEY. Operations do not come along and just sort of happen; they take an awful lot of preparation, drawing of the papers, and so forth.

Mr. BROWN. Certainly, I understand that, but you had in the broad view this contrast, that before December, loan after loan liquidates the demand loan down and keeps it always at a reasonable point, more or less.

As I recall the cables prior to the second U. K., Mr. Lamont's cable says that a commitment of some ninety-eight million by J. P. Morgan & Co., was regarded as very close to the proper limit; that in the whole financing up to December, the demand loan, as was testified during the discussion of the Anglo-French, was predicated on constant liquidation by a refunding operation.

From December on until April I am unable to see how the loan is predicated on a refunding operation because each time a refunding operation arises, the loan has reached a height where it cannot be refunded entirely.

Mr. WHITNEY. Of course, you have to start with some fact, have you not, and then go ahead and let us do all the imagining we want to. But on December 31 of this year the demand loan was, roughly speaking, $235,000,000. Against that there was collateral for $700,000,000.

Mr. BROWN. Can we leave the collateral out for a moment?

Mr. WHITNEY. You cannot——

Mr. **Brown**. Because the question has never been raised that the loan was not good.

Mr. **Whitney**. I supposed that you were asking me to answer a certain theoretical supposition you made.

The fact is that it is true, and there is no argument about it, that on April 6 the demand loan was $345,000,000. There is no argument about that. There is no argument about the fact that after the payment of the third U. K.'s, the proceeds of that were insufficient by $76,000,000 to pay off the then demand loan.

But when you then carry on and say there was no program for the ultimate liquidation of it, I think that that is a very misleading way to put it. It may be the demand loan or the requirements of the British were at this time faster and heavier than we could keep absolutely up with; but when you say there were no plans, I can only take the date of April 6, which because of other circumstances terminated the opening of the market to others than the United States promptly and at that time the British Government had not only $700,000,000 worth of securities, the same amount, roughly they had on December 31, but they had plans to ship $400,000,000 worth of gold, and they had $200,000,000 Canadian Pacific and $300,000,000 Canadian Government bonds.

The requisitioning, this new scheme we talked about, was just getting under way. So that while we did not do it, because of other circumstances, I say there were infinitely sufficient commercial securities here to liquidate the demand loan.

After all, if you assume that certain circumstances had been completely different—I am not saying they could go on indefinitely buying at the same rate in this country, because obviously some time there comes an end to it, but there is no indication anywhere in the record that at the time circumstances changed the British were not more than able to take care of their full requirements.

Mr. **Raushenbush**. I think the Balfour thing is what upsets us. We believe the Lord Chancellor when he made these statements and we seem to see a little contradiction between his statement that they were in financial extremities by July 1 and the statements we have been getting here that there were excess gold and securities of almost unlimited quantities.

There just seems to be a discrepancy. I would gather that the difference in the argument is that you attach little less importance to his statements than we do.

Mr. **Whitney**. No; Mr. Raushenbush, it is not that at all, but I find it awfully difficult to discuss a conversation between Balfour and the Secretary of our Treasury of which we have no knowledge, and to know what the circumstances about the other part of their conversation were. I still think that the fact that the United States had entered the war, and that this mission was over here, as I understood at the time, to discuss with our Treasury co-operative methods, not only in financing but in buying and all the other things, certainly brings about a change of circumstances where it might have accounted in some measure for what Balfour said.

I do not see anything that he said that is quoted to me that contradicts the facts as we know them to be prior to the United States entry into the war.

Mr. **Raushenbush**. Perhaps we can get an agreement that everything was reasonably rosy or had possibilities up to July 1 and then at that point he was right; you just had never got to that point.

Mr. **Whitney**. There is nothing I would like better than to agree, but, you see, you are getting into July, something I do not know about. I think that was a fairly important 3 months that interposed between the time that we have actual knowledge of and this conversation between Balfour and the Secretary of our Treasury.

Mr. **Raushenbush**. We are frank enough about this. We take Balfour and his statement here. The statement—which, by the way, was a statement, not simply a conversation—points out that by that time the thing was in such bad shape that either the United States had to come in or British credit would have gone to pieces.

That is what he says.

Mr. **Whitney**. They had come in.

Mr. **Lamont**. They had come in by July 1. That is when the conversation was.

Mr. **Raushenbush**. They had to help them out financially.

Mr. **Lamont**. That is when the conversation was.

Mr. **Raushenbush**. No, he said as of that date, "We have now within a matter of a day or two." This is not a matter of months, this is a matter of days. "On July 1 come to the place where the British creditors are about to go on the skids in a big way." I do not see why I speak so colloquially about this.

Mr. **Lamont**. Does it not come down to this: You cross examined us on what the British Government resources were, vis-a-vis America, up to April 6. After that you have to carry on your discussion with the American Treasury.

Mr. **Raushenbush**. No; I do not think that is quite right. You accept everything the British Chancellor told you about all the resources they had and predicate the whole proposition of continued Allied financing on that, and it seems reasonable. Then a few months later, really relatively a few months as the world goes, 3 months after we got into the war, the British, the same people who have been talking with you, say something that may be entirely different than what they have been telling you, and they say it officially to the United States Government, that "We are really only able to carry on 3 more months, gentlemen, after April, and by July we have now come to the finishing point."

There may be a difference in what they told you and what they told him, but the cross examination on all of that which was told you is certainly in point with this other thing in mind. I think it is very germane.

Mr. **Lamont**. But it was not our hunt after April 1.

Mr. **Whitney**. Perhaps Mr. Brown knows this, because it is all in the record through here, that after the entry of the United States into the war the public markets were closed to the British Government in its financing except, naturally, with the approval of our Treasury.

That being closed, they were dependent upon some other way of carrying on, were they not? They had to get new resources somewhere. They could not sell securities. They were not permitted at that time even to liquidate the demand loan, for which, of course, they had no new money. The only means they had of getting it on their own account was gold. It was not long, but it was a pretty important three months, was it not?

Mr. RAUSHENBUSH. Your point seems to be well taken, that they had been relying on our bond market. Now the bond market was closed when we got in.

That is why awhile ago I was so interested in this equities proposition.

Mr. WHITNEY. Mr. Nichols very politely reminds me that I made a misstatement when I said that the suggestion of equities was first made in December. It was actually made back in May or early June.

Mr. RAUSHENBUSH. And, again, it was made by you, was it not?

Mr. WHITNEY. Yes.

Mr. RAUSHENBUSH. It was your suggestion in both cases, as I remember.

Mr. WHITNEY. I just forgot it. I did not do it deliberately, of course.

Mr. RAUSHENBUSH. Yes. There was no reply in both cases. The British did not take it up. That is why I was so interested, if they really wanted to win the war, that they did not at least try later. There is no record, that you know of, of their trying later after the American bond market was closed to them by our own war issues, to get money for themselves by, if you will, divesting themselves of their commercial empire. That is why I was interested in that.

Mr. WHITNEY. Of course, I do not know whether that was discussed by Mr. Balfour and the Secretary of the Treasury. Of course, the circumstances were a little different in July than they were in December.

Mr. RAUSHENBUSH. They would be more likely to take it up with you, would they not? They could not sell the stock of their commercial companies through the United States Treasury.

Mr. WHITNEY. They did not want to, that is clear.

Mr. RAUSHENBUSH. They did not want to at any time.

Mr. WHITNEY. No. We said it would be distasteful to them.

Mr. RAUSHENBUSH. But the more likely people to them would be yourselves.

Mr. LAMONT. But they would not, no matter what the disposition might be. They would not take up any question of financing with us of that kind without first talking it over with the American Treasury and getting not only their approval but their direction to take it up with us.

Mr. RAUSHENBUSH. After the war, you mean.

Mr. LAMONT. Yes; after the war, and they never did. That was entirely between the two Treasuries. We did not have anything to do with that.

Mr. RAUSHENBUSH. And, as a matter of fact, they never did discuss it again.

Mr. LAMONT. Never did with us that I know of, certainly not.

Mr. BROWN. I offer for the record a cable of January 5, 1917, no. 35165, which has been largely discussed before. I think we can just pass it over.

Mr. WHITNEY. That was introduced yesterday.

Mr. **Brown**. Is it already in the record or was it just discussed?

Mr. **Whitney**. It was mostly read, I guess.

(The document referred to was marked "Exhibit No. 2665" and is included in the appendix on p. 8801.)

Mr. **Brown**. In regard to the amounts of U. K.'s held by banks and munitions companies, I offer a cable of January 6, 1917, no. 35177, confirming what we have already said.

(The document referred to was marked "Exhibit No. 2666" and is included in the appendix on p. 8802.)

Mr. **Brown**. It says in the middle of the first paragraph [reading]:

> The chances are that the projected issue, even if successful, will hardly be sufficient to pay off the amount of loans nos. 1 and 2 as they will then exist. But for the moral effect it will be essential to pay off all participants, thus leaving us in a position still carrying a larger amount of call loans. * * * We set forth these matters not in a spirit of complaint but in order to acquaint you fully with situation and with realization of difficulties inherent in it.

That indicates clearly, does it not, that you did not like the position of having to carry the British Government on the demand loans?

Mr. **Whitney**. No, no; I do not think that is fair. I think that it meant that we were again just pushing them, that they had to keep awfully busy to meet their requirements.

Mr. **Brown**. You seemed to feel you might be complaining.

> We set forth these matters not in a spirit of complaint, but in order to acquaint you fully with situation and with realization of difficulties inherent in it.

Mr. **Whitney**. We were not complaining, and we did not want them to think we were.

Mr. **Brown**. But you did say it was a very difficult spot to be in?

Mr. **Whitney**. We never have denied that.

Mr. **Brown**. I offer for the record a group of cables in regard to negotiations on the third U. K.'s. First, cable no. 28495, of January 10, 1917.

Mr. **Whitney**. Is this the series of cables, Mr. Brown, in which we insisted that it had to be very attractive, and so forth?

Mr. **Brown**. Just the mechanics of that matter.

(The document referred to was marked "Exhibit No. 2667", and is included in the appendix on p. 8803.)

Mr. **Brown**. 35445.

Mr. **Lamont**. What date was that?

Mr. **Brown**. That is January 12, 1917.

(The document referred to was marked "Exhibit No. 2668", and is included in the appendix on p. 8803.)

Mr. **Brown**. I offer cable no. 35572, dated January 16, 1917, to Morgan, London.

(The document referred to was marked "Exhibit No. 2669" and is included in the appendix on p. 8804.)

Mr. **Brown**. I offer cable no. 35628 of January 17, 1917, to Morgan, London.

(The document referred to was marked "Exhibit No. 2670" and is included in the appendix on p. 8805.)

Mr. Brown. There is one passage there that is worth noting [reading]:

> We have a feeling that your authorities may not fully appreciate the absolute necessity of the various changes which reluctantly we have been obliged to suggest as contrasted with our own original views as furnished, but we are sure you will make clear to them that situation for this issue has been more difficult than in case of either United Kingdom loans one or two and there has been much lethargy to overcome.

Could that be taken to indicate that these other plans for financing the demand loan, even had they eventuated, would also have met a good deal of lethargy?

Mr. Whitney. It so happened that the third U. K., you know, was a great success. We had always said they would have to have a conversion feature, but we had hoped in the beginning that the conversion into a 10-year bond would be sufficient. Then, as the cables which you have introduced show, we first went to a 15-year conversion and finally ended up in a 20-year conversion.

Mr. Brown. You made a very attractive issue out of it.

Mr. Whitney. We made it just as attractive as we could.

Mr. Brown. Because there was a great lethargy in the market to overcome.

Mr. Whitney. There were three features, I think.

First, what we said in that January 5 cable, that we would have to go to the investing public rather than rely on the banks and munitions firms. That was read several times yesterday.

Second, of course, we still had the aftermath of the Federal Reserve statement.

Thirdly, it was necessary, we thought, to pick this up, and there was a lethargy because of various commitments of this kind. We wanted to be sure it was a success, and it was.

Mr. Brown. I offer, similarly, for the record, cable no. 30339 of January 23, 1917, from Morgan, London; cable no. 35824, of January 23, to Morgan, London; cable no. 37032. of January 29, 1917 to Morgan, London; and an exchange of cables of the 23d, nos. 30360 and 35818, in regard to the arrival of Sir Samuel Lever, Financial Secretary to the Treasury, in New York in the end of January.

The Chairman. Both of these last are dated the 23d.

(The documents referred to were marked "Exhibits Nos. 2671, 2672, 2673, 2674, and 2675", and are included in the appendix on pp. 8805 and 8806.)

Mr. Brown. Then I offer, similarly, for the record, in regard to these drawing plans and municipals that have been discussed, cable of January 29, no. 30500 in regard to the British turning down one drawing plan.

(The document referred to was marked "Exhibit No. 2676" and is included in the appendix on p. 8806.)

Mr. Brown. I also offer cable of January 3, 1917, no. 28754, in regard to the London municipal issue.

(The document referred to was marked "Exhibit No. 2677" and is included in the appendix on p. 8807.)

Mr. Whitney. What does that read? Just give me the first words of it.

Mr. Brown. It begins: "We quite understand your views" and so forth.

Mr. Whitney. Yes.

Mr. **Brown**. Note at the bottom of the cable the following [reading]:

> We note you speak of smaller amount now than $50,000,000.

Is that pounds or dollars?

Mr. **Whitney**. This is $50,000,000.

Mr. **Brown**. Yes; $50,000,000 of that. There has been some discussion of the huge size of the municipals.

Mr. **Whitney**. That was not on any given issue, was it?

Mr. **Brown**. That was on the London issue.

Mr. **Whitney**. But the total municipals were a great many more than just London. The total amount considered as the maximum was 50,000,000 sterling. Let me get this cable. I do not like to speak too much from memory. This is referring to just one specific issue, is it not—the London County Council? Here we speak apparently of an amount less than $50,000,000. Certainly. We were discussing Birmingham and—there were four of them, were they not?

Mr. **Brown**. I offer cable no. 30666 of February 2, 1917, from Morgan, London, on the municipals also.

(The document referred to was marked "Exhibit No. 2678" and is included in the appendix on p. 8807.)

Mr. **Brown**. I now offer a group of cables on this Canadian Pacific operation, dated January 22, 1917, to Morgan, London, and April 5, 1917, to Morgan, London—the numbers are respectively 35763 and 41584—indicating that the Canadian Pacific arrangement had not reached fruition on April 5, 1917.

Mr. **Whitney**. Is not that what I said?

Mr. **Brown**. I do not remember what the date was.

Mr. **Whitney**. I said April, just when we went in the war.

(The documents referred to were marked "Exhibit Nos. 2679 and 2680" and are included in the appendix on pp. 8807 and 8808.)

Mr. **Brown**. I also offer cable no. 41732, dated April 10, 1917, to Morgan, Grenfell & Co., London, and a letter of April 14, 1917, from Mr. Lamont to Secretary McAdoo in regard to dropping that issue.

Mr. **Lamont**. What date is that?

Mr. **Whitney**. We are into April now.

(The documents referred to were marked "Exhibit Nos. 2681 and 2682" and are included in the appendix on pp. 8809 and 8810.)

Mr. **Brown**. During this period there was some discussion on the part of the Reserve Board reversing in some way its earlier stand, was there not?

Mr. **Lamont**. What is in the cables about that, Mr. Brown?

Mr. **Brown**. I offer for the record cable no. 35997, dated January 27, 1917, to Morgan, London.

(The document referred to was marked "Exhibit No. 2683" and is included in the appendix on p. 8811.)

Mr. **Brown**. It says [reading]:

> On Wednesday I conferred informally at Washington, D. C., with Secretary of Treasury, Governor and one other member of Federal Reserve Board. For your information Secretary of Treasury expressed apprehension as to increasing European loans here fearing that possibly his own financial plans for moderate bond issues might be interfered with.

Mr. **Whitney**. "Of course to us"—do you want me to read it on?

The **Chairman**. Read on.

Mr. WHITNEY (reading):

> Of course to us, this apprehension seems utterly groundless and we so expressed ourselves. Other two members of board seemed generally favorable to our plans, including present issue, as designed for distribution among private investors and thus relieving banks. Also seemed very favorable to suggested drawing plan by American manufacturers.

That is the one which did not come through.

Mr. BROWN. I offer for the record a similar cable of January 25, 1917, No. 30353, to Harjes in Paris, and a cable supplementary to that to Mr. Harjes in Paris, no. 30440, dated February 2, 1917, just after the breach in diplomatic relations.

(The documents referred to were marked "Exhibits Nos. 2684 and 2685" and are included in the appendix on pp. 8811 and 8812.)

Mr. BROWN. I call your attention to the line down in the middle of the second paragraph of cable No. 30440 [reading from "Exhibit No. 2685"]:

> In such an event—

this is in case of hostilities with Germany—

> Federal Treasury may float immediately bond issue of $500,000,000, possibly $1,000,000,000, either amount being quickly absorbed.

Mr. Lamont, was that amount mentioned to you in your conference with the Secretary of the Treasury of January 25?

Mr. LAMONT. I have not the slightest recollection, Mr. Brown.

Mr. BROWN. It seemed so close, February 2, hardly when the breach in diplomatic relations had been accomplished, that you informed Harjes that in the event of war the Federal Treasury has a plan to float anyway $500,000,000 and maybe a billion. It occurred to me possibly that that might have been discussed on January 25th.

Mr. LAMONT. January 25th was 6 days before the Germans filed their notice declaring unrestricted submarine warfare. I did not know anything about their note.

Mr. BROWN. Did you confer with the Secretary of the Treasury after the receipt of that note?

Mr. LAMONT. Not that I recall, unless it is in the record somewhere.

Mr. BROWN. You do not recall it?

Mr. LAMONT. I do not recall it. I was subject to his call if he ever wanted to see me.

Mr. BROWN. But did he tell you at any time, if you remember, whether the Federal Treasury would float this amount of money?

Mr. LAMONT. I have not the slightest recollection of that.

Mr. RAUSHENBUSH. The last letter, referring to this discussion between Mr. Lamont and Mr. McAdoo, as I got it—no, this was a cable to Harjes on February 2, referring apparently to an earlier discussion between Mr. Lamont and Mr. McAdoo. That was the day before the diplomatic relations were severed, was it not?

Mr. LAMONT. What?

Mr. RAUSHENBUSH. The cable was dated February 2.

Mr. LAMONT. Diplomatic relations were severed January 31?

Mr. BROWN. No; February 3.

Mr. LAMONT. The note was January 31.

Mr. RAUSHENBUSH. And your conversation was January 25, so we gather.

Mr. LAMONT. Yes. In this cable, Mr. Raushenbush, that you are alluding to of mine, I say at the very end—and this will probably answer Mr. Brown's question [reading "Exhibit No. 2685"]:

> In dictating this we are as yet quite in the dark as to what action Washington is about to take, which, of course, may be announced later in the day. Such action may serve to make the foregoing suggestions entirely negligible.

Mr. RAUSHENBUSH. Washington presumably was in doubt, too. I was simply trying to place the date on which that information was secured that the bond market of the United States might be closed to the British, whether that was presumably in your meeting with the Secretary of the Treasury, which is otherwise dated as January 24.

Mr. LAMONT. What does my letter say about my meeting with the Secretary of the Treasury?

Mr. RAUSHENBUSH. Your telegram to Harjes is dated the 25th, and in this last paragraph says [reading from "Exhibit No. 2684"]:

> For your private information, Secretary of Treasury, who T. W. Lamont visited yesterday, stated informally that in view of pending necessity for American Government to issue bonds * * *

Mr. LAMONT. Yes.

Mr. RAUSHENBUSH. So I was just trying to find out whether you had gotten the information put in the cable of February 2 in that conference of January 24, or do you remember subsequent conferences?

Mr. LAMONT. Mr. Brown asked me that a moment ago. I said I had not the slightest recollection of that.

Mr. RAUSHENBUSH. All right; I am sorry. I did not hear it.

Mr. BROWN. I offer a cable of February 21, 1917, no. 37870, to Morgan, London. It needs no comment, I believe. It is in regard to this possible bridge matter.

(The document referred to was marked "Exhibit No. 2686", and is included in the appendix on p. 8813.)

Mr. BROWN. I offer a cable of February 27, 1917, no. 39085, from H. P. Davison to Mr. Grenfell.

(The document referred to was marked "Exhibit No. 2687", and is included in the appendix on p. 8813.)

Mr. BROWN (reading):

> Lever and I to spend this evening in Washington, D. C., with British Ambassador and Governor Federal Reserve Board to discuss subject our 37870. Nothing new and really not very hopeful that anything will come of these particular negotiations.

Mr. BROWN. I then offer a cable of February 28, 1917, no. 39124, from Mr. Davison to E. C. Grenfell, in regard to this same conference, apparently.

(The document referred to was marked "Exhibit No. 2688", and is included in the appendix on p. 8814.)

Mr. BROWN. I also offer a cable of March 8, 1917, no. 39510, to Morgan, London.

(The document referred to was marked "Exhibit No. 2689" and is included in the appendix on p. 8814.)

Mr. BROWN. I offer cable no. 41287, dated March 28, 1917, to Morgan, Grenfell & Co., London.

(The document referred to was marked "Exhibit No. 2690" and is included in the appendix on p. 8814.)

Mr. **Brown**. I read from this cable [reading]:

> For your most confidential information, J. P. Morgan conferred yesterday with Secretary of Treasury, whose attitude is in favor of granting ample credit to the Allies. We believe that in due course President Wilson is likely to advocate such a plan to Congress and we are in hopes that if adopted it might become effective on or about May 1, thereby leading to a solution of all the exchange difficulties of the Allied Governments.

Mr. **Lamont**. That, of course, was subsequent to the time that the President had sent out the call for Congress.

Mr. **Brown**. Does Mr. Morgan recall whether the discussion at that time was to advance the Allies money for their expenses in the United States or for all the expenses that came over the New York market of any kind?

Mr. **Morgan**. I do not know. I do not remember the discussion. The record is here. That is all I know about it.

Mr. **Brown**. I would like to offer for the record in regard to this collateral question on these United Kingdom loans, a letter from the Farmers Loan & Trust Co. to J. P. Morgan & Co., dated December 27, 1916. You have not got it. It is a list of collateral.

We will note in passing that that is the collateral under the United Kingdom loan, no. 1, December 26, 1916, and this shows Dominion of Canada $62,000,000 and 7,000,000 pounds sterling plus.

(The document referred to was marked " Exhibit No. 2691" and is included in the appendix on p. 8815.)

Mr. **Brown**. Then I will offer, as the third page of the previous document, a memorandum, whose source is the Guaranty Trust Co. of New York, memorandum at close of business, December 27, 1916, showing the status of the U. K. No. 2 loan as of December 27, 1916, in which it appears that the British railroads under this loan had 7,718,000 pounds of obligations unsecured and that Australia, Canada, Egypt, and New Zealand and South Africa had a total of $45,612,029.53 and 32,464,840 pounds.

Also there is a memorandum attached to the same document, first, Bankers Trust Co., résumé of collateral February 1, 1917, showing that under the U. K. No. 3 loan there were unsecured bonds of Egypt and Canada under the amount of $47,000,000 and 3,606,700 pounds.

(The documents referred to were marked "Exhibits Nos. 2691A to 2691C" and are included in the appendix on pp. 8817, 8827, and 8836.)

Mr. **Whitney**. Are they all as of December 27?

Mr. **Brown**. No; one as of February and other dates.

Mr. **Whitney**. And all those in accordance with the terms of the trust indenture.

Mr. **Brown**. Unquestionably; and the total par of these loans was $800,000,000, was it not, two at 250 and one at 300.

Mr. **Whitney**. Are you going to bring out that the collateral in there is different. Mr. Brown, they were entirely distinct loans. The third U. K. had no lien on the securities behind the first U. K.

Mr. **Brown**. Mr. Whitney, the question has been raised frequently that all those loans were collateralized.

Mr. **Whitney**. They were.

Mr. **Brown**. Now, we have in the record the nature of that collateral.

Mr. WHITNEY. Certainly I can submit all those things, but when you begin bulking them, Mr. Brown, they were sold at the very crest, and the collateral was different, each one of them was different. For instance, when you talk about Egypt, that applied only to one loan. It is easy to submit, and I would be only too happy to have you use it, because it is a record of which we are very proud, to show that each one was collateralized in accordance with the terms of the circular under which they were originally sold.

Mr. BROWN. There is no question but what they were collateralized according to the terms of the indenture.

Mr. WHITNEY. I know.

Mr. BROWN. I want to put in the record that the total par of the loan was $800,000,000 and the British railroads and the British Dominions unsecured obligations amounted to $405,000,000.

Mr. WHITNEY. Say that again.

Mr. BROWN. That out of a total par of $800,000,000, that would mean about one billion of collateral, roughly $405,000,000 par, Mr. Whitney, consisted of British railroads and British Dominion unsecured obligations, obligations of British protectorates.

The queston is, if the unsecured bonds of the British or the British Empire—Mr. Lamont talked about the collateral—if they were unsecured, of what value would be the Dominion securities, if some other country's securities were questioned?

Mr. LAMONT. Do you mean to say that the entire North American Continent north to the Canadian line would blow up, if Germany had had better luck in the war?

Mr. BROWN. I am not questioning any one particular part of it, but the whole unsecured obligations of the British Empire—and not by any means are all of those Canadian, Mr. Lamont—and this does not include the Canadian railroads but merely includes Dominion securities——

Mr. LAMONT. We have always considered Canadian Dominion securities, provincial securities, very high grade, Mr. Brown.

Mr. BROWN. How about New Zealand, South Africa and Australia? You have made the argument that if the British lost the war, that did not mean that the loans would not be secure.

Now the question I have in mind is this, taking those securities under the loans, if Great Britain defaulted, so that those pledge agreements had to be enforced, what market would there be for 9,000,000 pounds of Australians, 5,000,000 pounds of New Zealands, and 6,000,000 pounds of South Africans, and 5,000,000 Egyptians?

Mr. LAMONT. Mr. Brown, we have not the slightest idea but what every one of those items, in case of necessity, would have been liquidated in due course by the obligor. If we had had any doubt of that at all, we would not have accepted that.

Mr. BROWN. Do you think, if the mother country had been unable to pay them, that the Dominions would have gone through on their obligations?

Mr. LAMONT. We think, as I stated, absolutely, that the obligations were absolutely good.

Mr. WHITNEY. In support of that, Mr. Brown, you must remember that each colony of Great Britain to which you referred is an exporting nation, all having very great natural resources. They could then stand on their own bottom and have since.

I am delighted to have you present it any way you want, but I do say that when you are bulking them, you are always inevitably going to give a misleading picture, because the first loan had a certain basis, two groups of collateral, of which we took Canadian Pacific Railroad on the first group. The British railways I think, came in the second.

Mr. BROWN. In the second.

Mr. WHITNEY. Yes, sir; the second one, where we had in the first group $180,000,000, we had them. Of course none of these things went against the 2-year period. Some of them went against the 3 and 5 and certain others, the British railways, I think, were entirely in the third, were they not?

Mr. BROWN. They are in the second.

Mr. WHITNEY. British railways?

Mr. BROWN. Yes, sir; number 2.

Mr. WHITNEY. What was the third?

Mr. BROWN. The third was Canada and Egypt chiefly.

Mr. LAMONT. You see, Mr. Brown, as Mr. Whitney has pointed out, the details of this collateral at the time of these loans were made public to the investors and before that to the syndicate bankers underwriting the loan. They evidently were convinced as to the goodness of those loans, because, in the first place, they would not otherwise have underwritten them and in the second place would not have bought them.

Mr. BROWN. That question was never at issue, Mr. Lamont. The question is, or we have found since the hearing, suppose that they accomplished collateralization of these loans. I am simply asking you if you thought the credit of the colonies was better than the credit of the mother country. That is all. Does it add anything to the security of a British bond to put behind it the obligation of its colonies and protectorates?

Mr. LAMONT. Certainly it does.

Mr. WHITNEY. Absolutely.

Mr. BROWN. Then the credit of the colonies is better?

Mr. LAMONT. It does not say that. The total of the joint credit of Britain and France in 1915 was $500,000,000. Then as the situation progressed, Mr. Brown, it became perfectly evident that the investment community in America did not want to buy any more unsecured obligations on any scale, and we asked for security and security was forthcoming.

Mr. BROWN. You did not have the thought of securing them with British Treasury bonds too?

Mr. LAMONT. We did not secure them with British Treasury bonds. You may have your opinion on the matter, but ours was that the loans were absolutely safe and very amply secured.

Mr. BROWN. I offer for the record an extract from your Life of Mr. Davison, Mr. Lamont.

Mr. LAMONT. What is that about?

Senator VANDENBERG. I wrote a book once.

Mr. BROWN. This extract states [reading]:

> After the war was well over, the cry began to be raised that American bankers had dragged the United States Government into the conflict in order, as it was often put, "to make good their foreign loans." Of course, any such charge was so absurd and unwarranted as to be ridiculous. The total amount

of unsecured loans, issued in America by the British and French Governments and outstanding at the time America entered the war, did not exceed $500,000,000 * * *.

You would amend that figure, would you not, Mr. Lamont?

Mr. LAMONT. You suggest the amendment, and it is very possible I can accept it. What is your amendment?

Mr. BROWN. I should amend it in the sense that we ought to include the acceptances, the French municipals, the British bank credit of 1915, all told an amount that I figure roughly as $855,000,000.

Mr. LAMONT. Including the $500,000,000, you mean?

Mr. BROWN. Yes, sir; including the $500,000,000.

Mr. LAMONT. Was I alluding in the book to the publicly issued loans?

Mr. BROWN. The phrase is:

> The total amount of unsecured loans, issued in America by the British and French Governments, and outstanding at the time America entered the war, did not exceed $500,000,000.

Mr. LAMONT. I used that word "issued" in the ordinary sense, Mr. Brown, which meant publicly issued.

Mr. BROWN. It did not mean that it included the total unsecured obligations of those two countries?

Mr. LAMONT. I was not taking into account these scattering credit operations; no, sir.

Mr. BROWN. But the scattering credit operations raised it to the very considerable total of $855,000,000?

Mr. LAMONT. First rate.

Mr. BROWN. The extract continues [reading]:

> and there never could have been any valid doubt of their goodness. At the time of their issue they had been widely distributed throughout the American investment community, and were not—contrary to common belief—held in bulk by bankers.

(The document referred to was marked "Exhibit No. 2692", and is included in the appendix on p. 8853.)

Mr. BROWN. That is all, Mr. Chairman.

The CHAIRMAN. Senator Pope, do you have here a statement which you wish to offer at this time?

Senator POPE. Yes, sir.

The CHAIRMAN. You may proceed.

REMARKS OF SENATOR POPE

Senator POPE. When the United States Senate authorized an investigation of the munitions industry, we were honored to be named members of the Committee. The objectives outlined in the resolution authorizing the investigation were to inquire into the practices of manufacturers, sellers, and distributors of arms, munitions, and implements of war, to investigate existing legislation and treaties in the regulation and control of the traffic in munitions and to recommend additional legislation. For many years we felt such an investigation to be desirable and that a thorough-going expose of the practices of munitions makers is necessary to the future peace of the United States and the world. We most emphatically are in favor of appropriate legislation to control or regulate the munitions traffic.

During the major part of the Committee's inquiry it has conformed to the statutory limits of its jurisdiction and has been of untold value to the people of the United States. It appears now, however, that the investigation has degenerated into an attack upon our wartime President, Woodrow Wilson, and his Secretary of State, Robert Lansing. No word that we can say will add to the greatness of President Wilson, the genuine sincerity of the man, his honesty of purpose, his unusual personal integrity, and his life-spending effort in behalf of his native land, but we must express our resentment at any effort to impugn the motives of Woodrow Wilson and to discredit his great character. The chairman of this Committee is quoted in the press as making the charge that President Wilson and Secretary Lansing were falsifiers. Just what this has to do with an investigation of the munitions industry under the terms of the resolution it is not possible for us to see. The purpose of the investigation is being lost sight of and the chance to secure enactment of remedial legislation is rapidly disappearing. Such efforts to disparage Wilson and Lansing, however, do disclose the bias and prejudice with which the investigation is being carried on.

We will take no part in such performance. We are emphatically not interested either in head hunting or using an instrumentality of the United States Senate to promote the bias, prejudice, or animus of any member of the committee.

We repeat, there is the most urgent need for a true munitions investigation and remedial legislation. Whenever this Committee realignes its investigation to conform with this objective, it will have our full support. Signed by myself and Mr. Walter F. George.

The Chairman. The Chair could not at this time avoid, however briefly it might be, comment upon the statement which has just been offered for two members of this Committee by one of our distinguished members, Senator Pope.

As a member of this committee, I want to say that there has been no avenue pursued in our study that has not first been approved by a majority of the Committee, and the calls for meetings at which there was to be considered what direction the committee was to take have been for meetings, of which every member of the Committee has had notice. There have been times when a majority of the Committee could not be mustered. Invariably there was postponement to a time when a majority could be had.

The Chair has taken no pleasure in many of the avenues that have been pursued. He feels that sometimes very considerable weakness of his is that when he starts out in pursuit of facts, upon a given line, he does not know enough to stop when the going gets a little rough, by reason of the persons whose toes might be in the way of the committee pursuing the course that it chooses.

I regret that the Senator should have to refer to yesterday's developments as a degeneration on the part of the Committee. I wish the Senator from Idaho could have been present yesterday when Senator Clark was developing the story of the tramp, tramp, tramp, step-by-step progress in 1915 and 1916 of the United States into the World War.

I think all who were present on yesterday will bear testimony that there was not malice in the comment that was offered, to the effect that Secretary Lansing and President Wilson had evidently falsified when they were asked, after the war and after the Peace Conference in France, whether they had had earlier knowledge than at the conference of the so-called secret treaties made between Great Britain and those of her Allies who were allies before the United States entered the war. Invariably Secretary Lansing and President Wilson responded to the Foreign Relations Committee, when it thus questioned them, to the effect that they had had no previous knowledge.

No man can read the record that has been made respecting history, actual history of those days, and ignore the fact that both Secretary Lansing and President Wilson had departed from the facts when they pleaded that they had no knowledge of these secret treaties.

The record which every member of the Committee has had in his possession for the last 4 or 5 weeks very clearly establishes the fact that within a matter of a very few days or weeks after the United States entered the World War, those who were leading our American cause did have knowledge, and that direct, that secret treaties had been entered into.

Senator POPE. Mr. Chairman——

The CHAIRMAN. Just a moment, Senator. Pardon me.

I am not going to be at all resentful, if it does develop, as it has, that there has been displeasure on the part of any member or members of the Committee with the course which the proceedings have taken, but any endeavor, any undertaking that has as its purpose the lessening of the danger of our being drawn into more war, if it be an undertaking that does not deal fairly and squarely and without prejudice on these very direct things, that did enter into, in a very vital way, and finally into our declaration of war such purpose cannot be said to be a fair one.

I have never devoted myself as earnestly, with as little prejudice and with as thorough a determination to make the job a thorough one, as I have entered upon the tasks which have been very plainly laid out for us in the resolution adopted by the Senate and under which we have been operating.

I should regret exceedingly if there can be made, as a result of the hearings that have been conducted, any showing whatsoever indicating that there has been animus on the part of the chairman of this committee, or any member of this committee in the prosecution of its plain duty.

Senator POPE. I was just going to ask, Mr. Chairman, if you did not base your conclusion that Wilson and Lansing were falsifiers upon statements made by two eminent Englishmen?

The CHAIRMAN. Only in part, Senator.

Senator VANDENBERG. Mr. Chairman, I would like to make a comment on this situation.

I was not present yesterday afternoon when this particular incident occurred, to which Senator Pope refers. I have great respect for the memory of President Wilson; I have great respect for Senator Pope and Senator George; I have great respect for Senator Nye and Senator Clark, who have borne the chief burden of this inquiry, and who, in my judgment have rendered an inestimable service to the American people.

My regret is, that it seems to be so difficult to conduct the inquiry objectively.

The record will disclose my constant efforts to be objective in consideration of it.

In this sense, in an objective sense, it seems to me that tremendous and vital values are being disclosed. In my view, we see a clear demonstration that the commercial factor is an inevitable and irresistible impulse in these war equations. That can be said objectively. It does not attach to any particular individuals—and I may add that I have great respect for the witnesses who now sit in the box in front of us. It does not attach to individuals as such; it attached to our entire existence in our attitudes heretofore. It is inherent in our entire neutrality policy heretofore, which has been a policy primarily intended first, to preserve commerce, and, secondarily, to preserve peace, if possible, as a by-product.

Now, I think our objective can certainly be unanimous—and this includes Senator Pope and Senator George, and I think it includes the witnesses and all the others, as well as myself and the balance of the committee—that our objective is to try to quarantine this hazardous impulse, if it can be done.

It seems to me that history has been rewritten in the last 48 hours. That is not strange. I never knew in all my observations that history could be written accurately until years and years after a given event, until a full perspective is available.

Now, I think it is very important that history should be revealed in all its nakedness, no matter what its implications are, and then the facts can speak for themselves, and then if we can study them objectively, perhaps we can gain a lesson from them.

My feeling is that it is not our function to prosecute anybody. I am certainly not sitting here as a prosecutor in any sense, of anybody. Foresight never can be as good as hindsight. The Congress, the President, the members of the Cabinet, could not be in possession of all the knowledge that we have today respecting the interlocking factors.

These gentlemen who have done us the honor of testifying here for nearly 2 weeks could not have known all the interlocking factors that were involved in the situation 21 years ago.

It seems to me that our problem objectively is to see what we can do to profit by mistakes that are disclosed, and to benefit by the errors, so that in some small, final degree, the World War will not be a total loss to the United States, which up to date it is, unless we can learn something advantageous from it.

So, Mr. Chairman, so far as I am concerned, I shall very heartily continue to cooperate with the committee objectively in an effort to do everything within my power honorably to keep America out of war. And I think if we could only get it into our minds and our purposes that the pursuit is objective and not personal—that is, it is impersonal—we can achieve a far finer result.

The Chairman. There has very obviously been——

Senator Pope. I agree absolutely.

The Chairman. There has very obviously been an established intent on the part of some—I think I should confine it to some editorial writers—during the last 2 weeks, especially, to indicate that the Committee was bent upon finding a—what word do I want?

Senator Barbour. A victim?

The **Chairman**. No; a villain.

Senator **Vandenberg**. A "goat", in the parlance of the street.

The **Chairman**. I think that the witnesses who are before us at the present time are ready to bear testimony that there has been no attempt on the part of the Committee to put them in the light of villains, who had set out in 1914 to drive 110,000,000 or 120,000,000 people into a war. And all the contentions to the contrary. I think no member of this Committee has ever pretended that such was the case.

But, in the furtherance of what Senator Vandenberg has remarked, the Chair would like to say this: That he is convinced from the following of this record that has been made, that throughout the years of 1914, 1915, and 1916, in each and every instance when American commerce was in any degree in conflict with America's policy of neutrality, that policy of neutrality was made to get out of the way and to give the center of the road to commerce. And I am sure that when this record is complete, and it is possible to piece it together in its proper order, that can be made plain to one and all alike.

Again Senator Vandenberg spoke of his respect and admiration for Woodrow Wilson. I have entertained, and I still entertain, largely a faith in that man's determination, if it were at all possible, to keep America out of the war. How much faith I had in him is perhaps best exemplified by the fact that in 1916, the campaign that year found me a poor little newspaper man with an editorial column to be filled every week, putting out a column which will be found to be in constant support of reelection of the man who had kept us out of the war.

I did that as a Republican, and I shall not for 1 minute accept any challenge that any purpose which has been mine as respects the record relating to Woodrow Wilson, to bring into play any animus or to use any occasion which might be presented to get even with someone whom I had opposed politically, because the record is so clearly one of support for the same man.

Unless there are further remarks, the Committee will proceed.

(At this point Senator Pope withdrew.)

SMALLER LOANS OF 1916 [1]

Mr. **Raushenbush**. Gentlemen, there are still a few questions about some of the loans that seem to have culminated, and which we have not finished up, and I think we can get through with them very quickly, and then the record on those other loans will be completed.

We touched for a moment yesterday on the American Foreign Securities Co., and we find that apparently the negotiation for that loan, issued by that company, began on January 5, 1916; and I wish to enter a letter from Mr. Harjes to " Dear Jack ", which opens those negotiations. I have no comment on it, unless you have. It just seems to be the start of it.

(The document referred to was marked " Exhibit No. 2693 " and is included in the appendix on p. 8854.)

Mr. **Raushenbush**. Do you remember at the time about that loan, what the point and purpose was of floating loans in addition to ordinary public financing? What was the point of the corporation?

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[1] See also "Exhibits Nos. 3192 through 3217", Hearings, Part XXX; "Exhibits Nos. 3960 through 3977 and 4043 through 4073", Hearings, Part XXXII. For Russian financing see "Exhibits Nos. 3266 through 3333", Hearings, Part XXX.

Mr. **Morgan.** I think I have a pretty good recollection of that. It was because the French Government was very adverse to putting out a secured loan, and this was a method of getting around that, by organizing a corporation to which the French Government presented the securities, and on those securities the corporation borrowed the money.

Mr. **Whitney.** With the French Government to keep them supplied with necessary securities, and to pay the interest and the bonds when due.

Mr. **Raushenbush.** I think that probably answers the question.

At this point we notice that you made on February 3, 1916, a proposal for this corporation, and sent it over to Mr. Harjes, and I want to offer that for the record.

(The document referred to was marked "Exhibit No. 2694" and is included in the appendix on p. 8855.)

Mr. **Raushenbush.** I take it that represents a true statement of the facts at that time?

Mr. **Morgan.** It is a very simple matter.

Mr. **Raushenbush.** Yes, sir.

Mr. **Whitney.** February 3, Mr. Raushenbush?

Mr. **Raushenbush.** I have no comment, unless you do. I am simply putting in the pertinent documents about the loan.

Mr. **Whitney.** Right.

Mr. **Raushenbush.** On February 8, 1916, the subject came up again in a further proposal from your firm, in which the possibility of loaning up to $200,000,000 came up.

Mr. **Morgan.** Yes, sir.

Mr. **Raushenbush.** That later came down to $100,000,000, did it not?

Mr. **Morgan.** Yes, sir.

Mr. **Raushenbush.** I offer that for the record.

(The document referred to was marked "Exhibit No. 2695" and is included in the appendix on p. 8856.)

Mr. **Raushenbush.** Then on February 21, 1916, the discussions go on in a telegram from Harjes in Paris, no. 16646, in which he points out that apparently the cost of that loan, as it is being discussed at that moment, is going to be 9 percent to the French Government, and that is a little too high. Correct?

Mr. **Whitney.** Yes, sir.

Mr. **Raushenbush.** That is offered for the record.

(The document referred to was marked "Exhibit No. 2696" and is included in the appendix on p. 8857.)

Mr. **Raushenbush.** On February 25, 1916, there was a wire to Harjes, no. 12102, in which you set out, in a little more definite terms, your endeavor to form a corporation, with all American capital, to purchase from the French Government their 3-year 5-percent obligations on a 7½-percent basis net to them, in an amount approximating $100,000,000.

That, I take it, was the best offer at the time, and it was on that basis that it went on?

Mr. **Whitney.** Yes, sir.

Mr. **Raushenbush.** That is offered for the record.

(The document referred to was marked "Exhibit No. 2697" and is included in the appendix on p. 8857.)

Mr. **Raushenbush**. Now, we come to a later paragraph in that same cable which raises one question which we have talked about at times before, which is this [reading from "Exhibit No. 2697"]:

> We have had constantly in mind the political exigencies of the French Government as repeatedly emphasized by you and as again recently urged by J. P. Morgan, but we cannot change conditions as they exist in America today.

Do you take that first sentence to mean what Mr. Morgan says, that the French did not want to be put in the position of having secured their loans?

Mr. **Morgan**. They were dreadfully sensitive about all that sort of thing.

Mr. **Raushenbush**. That is all it means?

Mr. **Morgan**. That is what it alludes to.

Mr. **Raushenbush**. That seems natural enough.

Mr. **Whitney**. Another factor is, they did not want to get the securities in.

Mr. **Raushenbush**. Do what?

Mr. **Whitney**. Collecting securities from their nationals. They thought that would be very unpopular.

Mr. **Raushenbush**. The cable continues [reading from "Exhibit No. 2697"]:

> Recent developments of our Administrations' controversy with Germany are making our investors more wary even than before. Further, for your private information, Dominion of Canada is pressing here for $100,000,000 loan, likewise Russia for same amount, being in active negotiation with strong group here for credit, cost of which in this market to Imperial Russian Government will be not less than 9 percent.

Could you give some explanation of that phrase, "recent developments of our Administration's controversy with Germany are making our investors more wary even than before"?

Mr. **Whitney**. Let us find out where we are.

Mr. **Raushenbush**. February 25, 1916.

Mr. **Whitney**. Our chronology shows that on that date—this is the 24th of February 1916—but that was not published at any time—a letter to Stone.

February 10, Germany had announced that armed merchantmen would be considered armed vessels of war. That may have been it.

Mr. **Rausenbush**. That states, "Our Administration's controversy with Germany."

Mr. **Morgan**. I do not know that. It must be the announcement of a more active or extensive submarine program.

Mr. **Whitney**. The beginning of the extending of submarine warfare.

Mr. **Raushenbush**. According to our chronology, on January 18, Lansing had suggested to the Allies the *modus vivendi*, which would have changed the whole situation, and that apparently leaked out to the papers, as I remember the history of the time, leaked out about this time.

Mr. **Morgan**. I cannot remember that.

Mr. **Raushenbush**. You see the significance of the question, do you not? At the same time, on February 22 and 25, at least on February 22, the McLemore Resolution had been introduced, so that you see the significance of this. If this was in your mind—and that is why I am asking the question—if the Lansing proposal that the submarine-merchantmen controversy be settled in the way Mr. Lansing thought advisable at that time, if that was the only thing up, if that was our controversy, that that would make the investors "more wary even than before"; and my query is, whether there was anything else which was brought up at the time in your minds, if you can remember?

Mr. **Morgan**. I cannot remember now.

Mr. **Raushenbush**. Do you remember the circumstances there, Mr. Lamont?

Mr. **Lamont**. I have failed to follow just the very phrase you referred to, Mr. Raushenbush.

Mr. **Raushenbush**. The one reading [reading from "Exhibit No. 2697"]:

> Recent developments of our administration's controversy with Germany are making our investors more wary even than before.

What I am trying to find out is, whether we were going toward a more peaceful situation or toward a more warlike situation. Do you see?

Mr. **Lamont**. Yes. I should not be able to recall unless I read the public press at the time, Mr. Raushenbush. That would probably give all the information that we had.

Mr. **Raushenbush**. All the information which we have is that the Lansing modus vivendi had been announced January 18, and it leaked out to the press before this February 25 letter.

Mr. **Lamont**. It has already been stated, has it not, Mr. Raushenbush, that on February 10——

Mr. **Whitney**. Yes.

Mr. **Lamont**. Then I won't read it again.

Mr. **Raushenbush**. I offer for the record a telegram to Harjes, dated June 28, 1916, and numbered no. 13307.

(The document referred to was marked "Exhibit No. 2698", and is included in the appendix on p. 8858.)

Mr. **Raushenbush**. That cablegram begins [reading]:

> Financial situation with Mexican trouble looming up becoming uncertain; therefore, it is of the utmost importance to French Government's interests to rush shipment of total amount securities necessary for loan. Every measure for this end should be undertaken, and no stone should be left unturned to impress situation upon officials.

Mr. **Whitney**. You will remember, Mr. Raushenbush, for clarification, that Mr. Ribot did not want to issue the orders to get the necessary securities, unless he had obtained the assurance that we could move it, and they had taken longer than we liked, and it was getting on, and we were trying to hurry him up.

Mr. **Raushenbush**. I can understand that. Then this latter part in the cable mentioned the same thing [reading from "Exhibit No. 2698"]:

> This possible war with Mexico, and likelihood of the United States Government issuing loans on its own account, may bring about radically changed conditions; therefore, we urge all haste for completion of operation.

That is the same thing you were talking about.

I offer for the record a cable dated July 17, 1916, to Morgan in London, no. 23206, which apparently carries the final formation of this American Foreign Securities Co., when it says [reading from "Exhibit No. 2699"]:

> For your information, the underwriting syndicate for the $94,500,000 3-year 5-percent notes of American Foreign Securities Co. completed today. We expect to make public offering of notes on Wednesday, price to public 98, syndicate underwriting, at 96, selling commission and other expenses to be paid by syndicate. American Foreign Securities Co. loans $100,000,000 to French Government at 7¼ percent per annum, although Government had agreed to pay 7½ percent if necessary.

That was about the form in which it finally went through, was it not?

Mr. **Whitney.** Yes, sir.

(The document referred to was marked "Exhibit No. 2699", and is included in the appendix on p. 8859.)

Mr. **Raushenbush.** Then I offer for the record the syndicate agreement on that, again showing, I believe, this issue at 96, that is, by the corporation at 96 and selling them at 98.

(The syndicate agreement referred to was marked "Exhibit No. 2700" and is included in the appendix on p. 8860.)

Mr. **Raushenbush.** The stock of this company was $10,000,000, was it not? It is in the syndicate agreement, the first paragraph.

Mr. **Morgan.** Yes, sir.

Mr. **Raushenbush.** You and Brown Bros. and some other groups, were the owners, were you not? Who else was in that? National City?

Mr. **Morgan.** You have a reference to them, have you not?

Mr. **Raushenbush.** I do not find them.

Mr. **Whitney.** A group of individuals, because the banks could not buy stocks.

Mr. **Raushenbush.** Were they officials of the bank?

Mr. **Whitney.** Yes.

Mr. **Raushenbush.** And the control, I take it, was in your hands?

Mr. **Whitney.** The control was trusteed. It was a holding trust, Mr. Morgan; Mr. James Brown, Mr. Robert Bacon, five, I think.

Mr. **Raushenbush.** We have from your records a summary of the syndicate, showing the net profit to the participants of $1,594,215, and that I take it is the difference between 96 and 98, is it not? It was floated at 98, was it not?

(The summary of the syndicate referred to was marked "Exhibit No. 2700–A" and is included in the appendix on p. 8864.)

Mr. **Whitney.** I have not got it right here.

Mr. **Raushenbush.** Ninety-eight and a quarter.

Mr. **Whitney.** Ninety-six and 98, that is two points, on $94,500,000 and plus expenses and various things up there. It was provided that the expenses would be borne by the syndicate.

Mr. **Raushenbush.** Yes, sir.

Mr. **Whitney.** That was the difference between $1,800,000 and the other figure.

Mr. **Raushenbush.** The net profit was $1,594,215. Then, as we gathered the picture—and I wish you would check us on this—the company itself, the corporation, took the notes from the French at 5 percent, I mean paid the French 5 percent, and got the revenue of 7½ percent. Is that right?

Mr. **Whitney**. They took the notes—I have to speak from memory, but it said in that cable you read that they took the notes at 7¼ percent, did it not?

Mr. **Raushenbush**. Seven and one-quarter, yes, sir.

Mr. **Whitney**. But I would have to get my figures before I would be certain.

Mr. **Raushenbush**. We figure out that this company with a $10,000,000 capital floated these notes and made, during the period of their length, for each of the 3 years that the notes ran, a profit there of the difference in the percents.

Mr. **Morgan**. That is right.

Mr. **Raushenbush**. It had to pay only 5 and it got 7¼.

Mr. **Whitney**. They had to pay more than 5, because they had to amortize. They sold them at a special discount of 4 percent, so that they had to amortize that difference when paid at maturity.

Mr. **Raushenbush**. Could you put in the record at this point what the profit of that corporation was for 3 years?

Mr. **Morgan**. It is in the record somewhere. I do not know where it is.

Mr. **Raushenbush**. I have not seen it, Mr. Morgan.

Mr. **Whitney**. They loaned the French Government $100,000,000 at 7¼ percent, and then there were $94,500,000 which they sold to the syndicate at 96. I think we can get the profit for you.

Mr. **Raushenbush**. For each 1 of the 3 years.

Mr. **Whitney**. We can get it for you very easily.

Mr. **Raushenbush**. Mr. Reporter, we will reserve a number for that.

Mr. **Whitney**. You want to know the net return per annum?

Mr. **Raushenbush**. In addition to this syndicate proposition, which we have already put in.

Mr. **Whitney**. You want to know what the stockholders got?

Mr. **Raushenbush**. Yes.

Mr. **Whitney**. We will get that.

The **Chairman**. The reporter will note that and offer it for the record at this point.

(The document referred to was marked "Exhibit No. 2700–B" and is included in the appendix on p. 8865.)

Mr. **Raushenbush**. I want to offer the participations and identify for the record without comment the collateral indenture in connection with that company.

Mr. **Whitney**. Those are the participation subscriptions?

Mr. **Raushenbush**. Yes, sir; those are the participations.

(The two documents referred to were marked "Exhibits Nos. 2701 and 2702" and are included in the appendix on pp. 8865 and 8873.)

Mr. **Raushenbush**. There are just a few things in connection with the United Kingdoms which we have talked about off and on, questions about mechanism, and I think a few on collateral. To summarize—and will you check me here—the first United Kingdom was $250,000,000; the second United Kingdom was $300,000,000; and the third United Kingdom was $250,000,000, a total of $800,000,000. The collateral behind them amounted to $300,000,000 in the first case, $360,000,000 in the second, and $300,000,000 in the third.

Mr. **Whitney**. One hundred and twenty percent.

Mr. **Raushenbush.** One hundred and twenty percent. I have already put in the record in another connection, I believe, that on the first loan, to support the market, Morgans bought $54,609,277, and on the second loan you bought $36,425,919, and on the third loan you bought only $11,409,058.

Mr. **Whitney.** That was in a trading account. That was stating just one side of the ledger; we bought and sold.

Mr. **Raushenbush.** You sold securities and bought the notes?

Mr. **Whitney.** Yes, sir.

Mr. **Raushenbush.** Going back to the American Foreign Securities Co. matter a minute, did you not spend about $10,000,000 to support the market on that, did not the company?

Mr. **Whitney.** Yes, sir; but what you just referred to was sales of collateral, the purchase of notes and carrying out the indenture? Is that what you mean?

Mr. **Raushenbush.** Yes; but the purpose was to keep the market up. We discussed that yesterday.

Mr. **Whitney.** It is a little different, because you extinguish the notes when you buy collateral, and one was a trading account for $10,000,000, but the net of it is more or less the same.

Mr. **Raushenbush.** The three loans were essentially the same, with regard to terms, were they not? They were all secured, and the syndicate agreements and the pledge agreements were very similar, and the third one a little more favorable, having a conversion provision?

Mr. **Whitney.** They were different maturity and different classifications, and the last one had the conversion.

Mr. **Raushenbush.** Generally speaking, they are very much the same, are they not?

Mr. **Whitney.** In general outline, yes; but in detail quite different.

Mr. **Raushenbush.** I want to offer the syndicate agreement of the 18th of August 1916, and the pledge agreement dated September 1, 1916, as typical of the United Kingdom loans generally.

(The documents referred to were marked "Exhibits Nos. 2703 and 2704" and are included in the appendix on pp. 8896 and 8900.)

Mr. **Whitney.** I do not want to interrupt you, Mr. Raushenbush, but with the qualification that certain substitute clauses in the three were different as to details, but the same as to general outline, as I said a moment ago.

Mr. **Raushenbush.** The nature of the collateral underlying them all is about the same, is it not?

Mr. **Whitney.** They were classified differently, and also some of the later loans had securities deposited pending arrival of securities from England, so that the substitution of it in general outline shows that they were the same, though in detail quite different.

Mr. **Raushenbush.** Of the 120 percent collateral, let us say, roughly, you tried to keep it about 40 percent Americans, 40 percent Canadians, and 40 percent neutrals. Is that not about it, making up the 120 percent?

Mr. **Whitney.** Could I introduce, which will clarify for the record, a public circular descriptive of those three issues?

Mr. **Raushenbush.** Yes, sir.

Mr. **Whitney.** I think that would make the record clear. One of the loans have the Canadians with the Americans.

Mr. RAUSHENBUSH. In the later one——

Mr. WHITNEY. In the second one.

(The three documents offered by the witness were collectively marked "Exhibit No. 2704–A" and are included in the appendix on p. 8924.)

Mr. RAUSHENBUSH. I want to call your attention to cable dated August 8, 1916, to Morgans in London, no. 23860, and call your attention to the middle paragraph there and ask for an explanation for the record. You are describing the collateral there and you speak of $100,000,000 of Americans, divided equally between American Dollar Securities and securities available for sale. For the record, will you explain what the difference was in the collateral that was put up—the American collateral, I mean?

Mr. WHITNEY. I tried to earlier. There were so-called Treasury securities which were owned by the British Treasury which had been acquired directly from their nationals and those we had general orders to dispose of. The securities under either Scheme A or B—while we had the complete right to sell them, if need be, under hypothecation, we had no instructions to sell them, because, as I said earlier, the terms under which they had been borrowed would have involved the British Government in very serious penalties if they had sold them, but, so far as the collateral went, we were completely free to sell them, if we wished to.

Mr. RAUSHENBUSH. If you got instructions to do so, you mean?

Mr. WHITNEY. At our election. If there was any default in the loan, we had a perfect right to sell them.

Mr. RAUSHENBUSH. I wanted that explained for the record. About one-half of them, about 50 million in that particular case, could not have been sold without definite instructions from the Treasury?

Mr. WHITNEY. Except to satisfy the loan.

(The document referred to was marked "Exhibit No. 2705", and is included in the appendix on p. 8928.)

Mr. RAUSHENBUSH. I offer for the record a cable dated October 27, 1916, to Morgan, in London, no. 29493.

(The document referred to was marked "Exhibit No. 2706", and is included in the appendix on p. 8929.)

Mr. RAUSHENBUSH. In the second paragraph of that cable there seems to be the same arrangement. It states [reading]:

> We expect to utilize among Americans about $50,000,000 Treasury securities supplying balance from American Dollar Securities.

Mr. WHITNEY. Yes; about 100 million Americans.

Mr. RAUSHENBUSH. You felt free, I take it, to use $50,000,000 to buy collateral balances, if necessary, to support the market, in which case there would be substitution of other Americans. Is that right?

Mr. WHITNEY. If we sold them, of course, we would deposit the cash with the Trustee, available for the purchase of others, or the cash stayed there. I do not quite follow your question about substitution.

When we speak of Treasury securities, we mean securities owned by the British Treasury and available for sale without further instructions. The other securities were, as I said before, those which involved a penalty to the lender by the borrower.

Mr. RAUSHENBUSH. A penalty against the British Government, if it ordered them sold?

Mr. MORGAN. Yes, sir.

Mr. WHITNEY. Yes, sir. Scheme A and Scheme B had different penalties.

Mr. RAUSHENBUSH. Now, coming to the cable from Morgan in London, dated July 28, 1916, still on the first U. K. loan, no. 20654, it describes the Canadian collateral being put up, and it describes it as Dominion indebtedness to the United Kingdom. Was that new indebtedness created for the purpose of buying collateral for this loan?

Mr. WHITNEY. No; it was putting into longer-term operations certain advances made by the British Government to the Canadian Government.

Mr. RAUSHENBUSH. That had already been outstanding?

Mr. WHITNEY. I understand so.

(The document referred to was marked "Exhibit No. 2707" and is included in the appendix on p. 8930.)

Mr. RAUSHENBUSH. We had a question on it, because on July 29, 1916, the next cable to Morgans in London, there is a question of getting the opinion of the Canadian Attorney General to the effect that all steps have been taken to make the bonds legal and binding. That is why I asked if they were new.

Mr. WHITNEY. My recollection is there was a question of whether the Canadian Government had proper legal authority to issue a long-term note as against the question of a short advance they were borrowing from the British Government. It was purely technical.

Mr. RAUSHENBUSH. That cable is offered for the record.

(The document referred to was marked "Exhibit No. 2708" and is included in the appendix on p. 8930.)

Mr. RAUSHENBUSH. The purpose of getting the Canadian Government to switch from a long term to a short term was to make more available as collateral?

Mr. WHITNEY. Quite.

Mr. RAUSHENBUSH. I offer both of those cables.

Now on November 23, 1916, you mention some Australian Government bonds which were being put up, and I offer that to connect up the record.

(The document referred to was marked "Exhibit No. 2709" and is included in the appendix on p. 8931.)

Mr. RAUSHENBUSH. On November 24, 1916, there is an acknowledgment to that being turned over to the Trustee. I offer that cable for the record.

(The document referred to was marked "Exhibit No. 2710" and is included in the appendix on p. 8931.)

Mr. RAUSHENBUSH. On December 1, 1916, the South African 4½'s were turned over.

I offer that for the record.

(The document referred to was marked "Exhibit No. 2711" and is included in the appendix on p. 8931.)

TERMS OF THE BRITISH PLEDGE AGREEMENTS[1]

Mr. RAUSHENBUSH. Then, on December 7, 1916, we come to a letter from you to the Lords Commissioners of His Majesty's Treasury, London, England, pledging not to sell any securities under the said pledge agreement, other than the securities which are the absolute property of His Majesty's Government, without further instructions. Do you have that letter in front of you?

Mr. WHITNEY. Yes, sir.

Mr. RAUSHENBUSH. You are not free to sell them without instructions?

Mr. WHITNEY. I cannot remember what clause 13 is. I think you will find it was all subject to the right of selling to satisfy the indebtedness, but we would not sell them unless instructed to. What is clause 13, if you know?

Mr. RAUSHENBUSH. We just put it in a minute ago, did we not?

Mr. WHITNEY. We always had a complete right to sell any collateral and satisfy notes, but this does unquestionably say that we were not to sell them without further instructions.

Mr. RAUSHENBUSH. I offer that for the record.

(The document referred to was marked "Exhibit No. 2712" and is included in the appendix on p. 8931.)

Mr. RAUSHENBUSH. Clause 13 of the pledge agreement, which has been introduced in the record, is as follows [reading from "Exhibit No. 2704"]:

> From time to time, acting by its agents authorized in writing (of which authorization a duplicate shall be filed with your company) the obligor may sell any of the pledged securities, provided that the obligor shall not be in default in the payment of the principal or interest of any of the notes—

And so forth.

Mr. WHITNEY. For the purpose of retiring the notes?

Mr. RAUSHENBUSH. You so informed the Trustee on August 18, 1916, in a letter outlining this and quoting the section, which I offer for the record.

Mr. WHITNEY. August 18 again?

Mr. RAUSHENBUSH. Yes, sir; it may be the 15th. It is August 15, 1916, to the Guaranty Trust Co.

Mr. WHITNEY. That must have been the Farmers Loan.

Mr. RAUSHENBUSH. We have this addressed to the Guaranty Trust Co., 140 Broadway, reading in part [reading from "Exhibit No. 2713"]:

> DEAR SIR: The Government of the United Kingdom of Great Britain and Ireland proposes—

And so forth.

Mr. MORGAN. To the Guaranty Trust?

(The document referred to was marked "Exhibit No. 2713" and is included in the appendix on p. 8932.)

Mr. RAUSHENBUSH. You say you may sell for cash any of these securities?

Mr. WHITNEY. This is not as a Trustee because they had nothing to do with the first U. K. This is advising them as one of the offering group. It is not as Trustee. They were Trustees under the second loan.

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[1] For collateral under the three United Kingdom loans see "Exhibits Nos. 4173 through 4183 and 4190 through 4196". Hearings, Part XXXIII; and "Exhibits Nos. 4254 through 4256", Hearings, Part XXXV. See also "Exhibits Nos. 3192 through 3217", Hearings, Part XXX.

Mr. **Raushenbush.** You made similar arrangements on the second and third U. K. loans, and I offer a letter to the Lords Commissioners of His Majesty's Treasury, dated November 1, 1916.

(The document referred to was marked "Exhibit No. 2714" and is included in the appendix on p. 8933.)

Mr. **Raushenbush.** I also offer a letter from M. G. Ramsay, in Treasury Chambers, to Morgan, Grenfell & Co., dated February 8, 1917, and I call your attention to the last paragraph.

Mr. **Whitney.** What date?

Mr. **Raushenbush.** February 8, 1917. This is from the British Treasury to Morgan, Grenfell, which states in the last paragraph [reading from "Exhibit No. 2715"]:

> But to avoid any misapprehension My Lords think it well to state that they are under pledge not to dispose in the market of the dollar bonds of the three Governments mentioned above, equally with the dollar bonds of the Government of Canada; and they would be obliged if Messrs. J. P. Morgan & Co. would give them an explicit recognition that all securities in group 2 are excluded from the authority for sale quoted above.

The three Governments mentioned being Australia, New Zealand, and South Africa.

Mr. **Raushenbush.** After receipt of that letter, was the situation that we referred to, which was communicated to you. You have been told that the collateral back of the third was subject to a double pledge, that is, that My Lords of the treasury had pledged themselves to the Dominions of Australia, New Zealand, and South Africa, and Canada, that they would not dispose of the dollar bonds of those Governments.

Mr. **Morgan.** That was subject to the overriding rights to sell them, if they were needed to satisfy the notes.

Mr. **Raushenbush.** Yes; I would suppose that legally, if there was default, they would all be sold.

Mr. **Morgan.** Absolutely. There was no charge against them——

Mr. **Raushenbush.** At this moment, the point I was trying to get at was a little different, namely, that the Lords of the Treasury, whatever they call themselves, told you that My Lords had pledged themselves.

Mr. **Whitney.** I think I can explain this. It sounds a little bit mysterious, but it is really very simple.

All the three trust indentures instructed the Trustees to take our order on the sale of collateral for the purpose of buying in notes, in our judgment. We had that general authority, and on these securities it was made overriding of the whole business under clause 13. The British Government advised us, however, that in connection with these four Dominions, they did not want to have these bonds sold for the purpose of buying notes or leaving cash, and we advised the Trustees in each instance that that general authority given us was still good with the exception of those four blocks.

This has nothing to do with the rights of the noteholders in protection of their collateral. It was merely a limitation put on our authority to sell all the securities behind these loans for the purpose of buying notes.

That is all of the significance this has. We, in the first instance, got the blanket authority, and then had it limited for that purpose under clause 13, and that alone.

Mr. RAUSHENBUSH. Barring default—and these things would not have defaulted for several years because they had 3 years to run—barring default, it simply provided brakes on the selling of the three Dominions?

Mr. MORGAN. Yes, sir; they did not want them sold for the purpose of obtaining notes before they were due, which has a very valuable effect on the margin and collateral, if they are carried out to a large extent.

Mr. WHITNEY. It is not collateral, Mr. Morgan. Practically, we were limited as to Treasury securities. But we got general authority under the indenture to sell it all, which they had sent out, and then they wanted to put this definite limitation on our authority in connection with the dollar securities of those four Dominions. It has nothing to do with the general rights of the note holders running to the collaterals, but it was just for a specific purpose.

Mr. RAUSHENBUSH. I want to offer, to complete the picture back and forth, the letter to which I have just referred of February 8; also the letter of February 12, 1917, from Morgan, Grenfell, calling it to your attention.

(The letters referred to were marked "Exhibits Nos. 2715 and 2716" and are included in the appendix on pp. 8933 and 8934.)

Mr. RAUSHENBUSH. I would also like to offer the letter of January 30, 1917, again bringing the matter up; letter of February 1, 1917, when you acknowledged it to the Lords Commissioners of His Majesty's Treasury—that is the phrase I was trying to get, "the Lords Commissioners of His Majesty's Treasury."

(The documents referred to were marked "Exhibits Nos. 2717 and 2718" and are included in the appendix on pp. 8934 and 8935.)

Mr. RAUSHENBUSH. Then on November 1, 1916, going back again, there is a cable which you dispatched to Morgan in London, no. 29745, which reads in part as follows:

> In order to avoid specifying to Guaranty Trust Co., New York, securities which are comprised in Treasury list, and which we will be authorized to sell, we propose to amend letter in 25448 as follows:
>
> "Delete 'Specified in annexed schedule aggregating in value $——— being securities included in group one', substituting the word 'pledged.' We, on the other hand, giving Ambassador letter stating that without further instructions we will not sell securities other than those comprised in Treasury list."

(The document referred to was marked "Exhibit No. 2719" and is included in the appendix on p. 8935.)

Mr. WHITNEY. That is just what I referred to a minute ago.

Mr. RAUSHENBUSH. What was the point of avoiding specification to the Guaranty Trust?

Mr. WHITNEY. I am advised it is to prevent the inconvenience of having them check up each time, as to whether it was scheme A, B, or Treasury. The authority of the trustee was complete, although we agreed with the Treasury, with the Government, that we would not sell anything but the securities they owned.

Mr. RAUSHENBUSH. Then there is a further cable on that under date of November 4, 1916, no. 26068, which says:

> Treasury letter confirming now received, * * *.

And so forth.

I will also offer the cable of November 3, 1916, no. 26037.

(The documents referred to were marked "Exhibits Nos. 2720 and 2721", respectively, and are included in the appendix on pp. 8935 and 8936.)

Mr. **Raushenbush.** Next I offer a letter dated November 9, 1916, to the Guaranty Trust Co., informing them that you are appointed agent and enclosing a letter to that effect.

(The document referred to was marked "Exhibit No. 2722" and is included in the appendix on p. 8936.)

Mr. **Raushenbush.** Next I offer a cable of November 4, 1916, with this paragraph at the end [reading]:

> If qualification is put in letter to us it would put the Trust Co. under duty to inquire as to whether securities mentioned were those we were authorized to sell, and we wish to avoid disclosing even to Trust Company that only comparatively small amount of securities are as a practical matter available for sale. Mr. Barclay will be here Monday morning to sign Pledge Agreement and other documents, so please cable to reach us our opening if this course is satisfactory.

(The document referred to was marked "Exhibit No. 2723" and is included in the appendix on p. 8936.)

Mr. **Raushenbush.** That deals with the second U. K., does it not, which was issued November 1st?

Mr. **Whitney.** Yes.

Mr. **Raushenbush.** What is the explanation for that apparent desire to avoid disclosing that situation to the trust company? I do not understand it.

Mr. **Whitney.** Well, for the purposes of article 13, we had agreed with the British Government that we would only sell without further authority from them the securities actually owned by the British Treasury, and the authority of the Trustee was to sell everything.

It says here that apparently in the first instance at least there was such a comparatively small amount of Treasury securities owned that were practically available for sale under our agreement. But I want to repeat again that that had nothing to do with the general rights of the noteholders for sale in that respect.

This was clearly the amount of the securities available for what you would call the support of the market.

Mr. **Raushenbush.** You would call it that, too, would you not?

Mr. **Whitney.** I meant what one might call, and not you.

Mr. **Raushenbush.** On this second U. K., a good deal was used to support the market. That is what you were interested in at this time, were you not?

Mr. **Whitney.** It did support the market.

Mr. **Raushenbush.** And you just had an experience——

Mr. **Whitney.** Of course, it extinguished the notes as the result of that support.

Mr. **Raushenbush.** Then there is a cable dated August 2, 1916, to Morgan's in London, no. 23656, calling attention to the third page, reading as follows [reading]:

> Much as we regret to say it, we doubt if this offering could be made successful without being handled in a very strong and aggressive manner. We have in mind, therefore, that if this principle and plan are approved by you, you might arrange, say with the Bank of England, to underwrite jointly with us up to $100,000,000 of the issue and to trade back and forth in the notes to a point not exceeding in the aggregate that amount at any one time,

And so forth.

What happened to that; did it go in with you?

Mr. **Whitney**. On each of the U. K.'s, we had an arrangement with the Bank of England that they would go in in an equal amount with us, but in each case we did not need a participation, so that it was a sort of insurance fund, but in no case did they ever actually participate under their terms.

We did the same thing in each one of the U. K.'s.

Mr. **Raushenbush**. You offered them underwriting?

Mr. **Whitney**. No; we asked them if they would be prepared to take a part in the underwriting, if we needed it, and every time they said they would, and in each case we were able to relieve them. They never wanted to.

Mr. **Raushenbush**. These loans here go to the largest banks first.

I offer a telegram dated August 15, 1916, no. 25199, for E. C. Grenfell, signed by Davison.

(The document referred to was marked "Exhibit No. 2724" and is included in the appendix on p. 8937.)

Mr. **Raushenbush**. That telegram reads in part as follows [reading]:

> In order to insure success of undertaking we first secured firm underwriting from largest interests and then advised dealers and banks of additional reservations subject to their acceptance, making aggregate allotted participations about $60,000,000 in excess of issue. Apparently, practically all reservations will be accepted which will result in the necessity of cutting down $60,000,000.

I mean, you were not really oversubscribed $60,000,000, were you?

Mr. **Whitney**. This is underwriting.

Mr. **Raushenbush**. Underwritten $60,000,000?

Mr. **Whitney**. That is a perfectly normal operation in the security business. We went to the biggest people and got a general commitment from them and then we went to all the dealers throughout the country and offered them participation, with the idea of what we call an over-underwriting, and have it reduced to the amount of the bonds.

In this case, apparently, we got applications for $60,000,000 in excess of the $250,000,000 and then, of course, had to cut it down to $250,000,000.

Mr. **Raushenbush**. With that sort of an oversubscription, if you will—I do not understand——

Mr. **Whitney**. It is not a subscription, Mr. Raushenbush, but an underwriting.

Mr. **Raushenbush**. An excess of underwriting. I do not understand why on the first U. K. you had to spend fifty-four odd million dollars, according to that.

Mr. **Whitney**. Because, after it is underwritten, it is offered to the public. There were no withdrawals like the Anglo-French loan.

Mr. **Raushenbush**. Then the one question which was in my mind, covered in a cable of August 26, 1916, where Mr. Morgan and Mr. Davison are wiring Morgan in London, cable no. 25488.

I offer that for the record.

(The document referred to was marked "Exhibit No. 2725" and appears in full in the text.)

Mr. **Raushenbush.** That cablegram reads as follows:

> At close of subscription books noon today, total amounted to $211,014,000. We have, therefore, subscribed on behalf of Bank of England and ourselves, joint account, balance of $38,986,000—being $19,493,000 for Bank of England and $19,493,000 for J. P. Morgan & Co.
>
> We shall, of course, continue to deal with the bonds held for our joint account to best advantage we can with the view to reducing the amount as fast as possible.
>
> In view of all circumstances, particularly the continued threatened railroad strike, also this being holiday season with very many important bank officers throughout country away, we are on the whole most gratified at outcome and hope your authorities are pleased.

Mr. **Whitney.** Further on you will find that we released them from that subscription. That was in accordance with their understanding, to take anything from up to $100,000,000. Somewhere, if I can turn it up, it says——

Mr. **Raushenbush.** Actually they never subscribed but simply underwrote?

Mr. **Whitney.** We released them from that subscription.

Mr. **Raushenbush.** So that their subscription had in effect shown a very large oversubscription?

Mr. **Whitney.** No, no.

Mr. **Raushenbush.** A very large underwriting?

Mr. **Whitney.** No; it tended, in the first instance, to release the underwriters from any liability there. In other words, there was seemingly a gap between the public subscriptions at that time and the total of $250,000,000, and then additional subscriptions came in which resulted in relieving the underwriters.

We say 3 days later [reading]:

> We now find our position such that we are quite willing to relieve the Banks of their participation in the purchase, and take them ourselves if they would prefer to have us do so or we will carry them in joint account with interest until further notice at 4 percent. You, of course, understand, that our desire is to do exactly that which the Bank most prefers.

They come back and say they would rather have us take them ourselves.

Mr. **Raushenbush.** I still have not got it very clear in my head as to why the Bank of England would become an underwriter but never a subscriber.

Mr. **Whitney.** It was a matter of security.

Mr. **Morgan.** It was never a subscriber but always an underwriter.

Mr. **Raushenbush.** I understand.

Mr. **Whitney.** They agreed to do both, but we never called on them for either.

The **Chairman.** Before recess, the Committee is desirous of entering for the record certain documents which will be properly identified, dealing with certain phases of the loans negotiated by Kuhn, Loeb & Co.; Lee, Higginson; and J. & W. Seligman.

Without objection from the Committee, they will be offered and the clerks will see that they are properly identified before turning them over to the reporter.

Mr. **Raushenbush.** Mr. Chairman, in that connection we have some of the Morgan cables which I should have put in the other day, running through 1916, and we have a list of them here and would like to offer them.

The CHAIRMAN. Is there objection on the part of the witnesses to these being offered for the record?

Mr. WHITNEY. Those are in connection with the financing?

Mr. RAUSHENBUSH. Yes, sir; of the other day, running through 1916. I have a list of them here.

The CHAIRMAN. The Committee is offering no comment upon them.

Mr. WHITNEY. We will see them in the record.

The CHAIRMAN. You will see them in the record.

(The following documents offered by Mr. Raushenbush were received, pursuant to the statement by the chairman above, being cable no. 12392 of Jan. 11, 1916; cable no. 13089 of Jan. 12, 1916; cable no. 13143 of Jan. 13, 1916; cable no. 12451 of Jan. 14, 1916; a letter of Jan. 17, 1916, from "W. P. B. to Right Honorable Lord Fairfax"; cable no. 17963 of May 3, 1916; cable no. 17987 of May 4, 1916; cable no. 16776 of May 5, 1916; cable no. 19058 of May 6, 1916; cable no. 19469 of May 20, 1916; cable no. 19760 of June 1, 1916; cable no. 19914 of June 6, 1916; cable no. 21104 of June 10, 1916; cable no. 21105 of June 10, 1916; cable no. 21221 of June 14, 1916; cable no. 18191 of May 24, 1916; cable no. 19627 of May 26, 1916; cable no. 18348 of May 31, 1916; cable no. 19767 of June 1, 1916; cable no. 19992 of June 8, 1916; cable no. 25120 of August 16, 1916; and cable no. 22281 of August 23, 1916—which were marked respectively "Exhibits Nos. 2726 to 2747" and are included in the appendix on pp. 8937 to 8949.)

(The following documents offered by the chairman were furnished the reporter by the Committee staff, being letter of Sept. 3, 1915, from Lee, Higginson & Co. to the Italian Ambassador; letter of Sept. 14, 1915, from the Italian Ambassador to Lee, Higginson & Co.; Italian contract of Oct. 9, 1915; letter of Nov. 14, 1916, from Lee, Higginson & Co. to Italian Ambassador in Washington; a draft of a communication dated Dec. 27, 1916, from the files of J. & W. Seligman & Co.; letter of Nov. 17, 1916, from Kuhn, Loeb & Co. in re 6-percent 3-year gold bonds of the cities of Bordeaux, Lyons, and Marseilles; circular on French municipal bonds issued by Kuhn, Loeb & Co.; statements of Kuhn, Loeb & Co. in connection with cities of Bordeaux, Marseilles, and Lyons; letter of Nov. 29 to Jacques de Neuflize; letter of Oct. 9, 1917, to Jacques de Neuflize; letter of Sept. 9, 1918, to Messrs. Kuhn, Loeb & Co. from J. Frederick Bloch; statement of French Government to Oct. 22, 1919, in account with Kuhn, Loeb & Co.; letter of Sept. 23, 1918, addressed to French Finance Commission; circular of Kuhn, Loeb & Co. on City of Paris 6-percent 5-year gold bonds syndicate; statement of account of Kuhn, Loeb & Co. with City of Paris; circular of Kuhn, Loeb & Co. on $50,000,000 City of Paris 5-year 6-percent gold bonds; letter of Aug. 30, 1916, to Mr. de Neuflize; letter of Oct. 3, 1916, to Mr. Jacques de Neuflize; letter of Oct. 13, 1916, from Cravath & Henderson to Messrs. Kuhn, Loeb & Co.; letter of Oct. 14, 1916, from Jacques de Neuflize to Messrs. Kuhn, Loeb & Co.; letter of Oct. 16, 1916, to Mr. de Neuflize; memorandum dated Nov. 20, 1916, headed "French municipal loans"; French Government account, Kuhn, Loeb & Co. (French municipal bonds—purchases and sales); circular of Kuhn, Loeb & Co. in re Royal Dutch Co. matter; cable of about November 1915 from Kuhn, Loeb & Co.; letter of December 1916 from H. W. A. Deterding to Messrs. Kuhn, Loeb & Co., which were respectively marked "Exhibits Nos. 2748 to 2775", and are included in the appendix on pp. 8949 to 8973.)

Mr. LAMONT. Mr. Chairman, in the course of the inquiry I have quoted figures now and then about the total of imports and exports, and so forth, quoted orally. These are embodied in our statement which, if entirely agreeable to the Committee, we would like to have for the record.

The CHAIRMAN. There is no objection.

Mr. LAMONT. We will submit it to you.

The CHAIRMAN. You are submitting it to the Committee, and if the Committee approves, you will offer it for the record?[1]

Mr. LAMONT. First rate.

The CHAIRMAN. The Committee then will be in recess until next Thursday morning at 10 o'clock.

(Thereupon, at 4:30 p. m., a recess was taken until Thursday, Jan. 23, 1936, at 10 a. m.)

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[1] Entered in record February 4, 1936, as "Exhibit No. 2791", see Hearings, Part XXIX, p. 9010.

APPENDIX

("Exhibit No. 2531" appears in text on p. 8489)

Exhibit No. 2532

State Dept. Doc.
763.72/2652½

Memorandum of Conversation with German Ambassador, April 20, 1916

L. Good morning.

B. Good morning, sir. You handed me a copy of the note yesterday, and in the present state of affairs of course my chief object is to find a way how this break can be avoided, because I hope it can be avoided. My idea is to find a way out of it, but of course I had to telegraph my Government that this Government seemed to offer little opportunity for settlement. If it means the entire stopping of the use of submarines, I am afraid that it cannot be arranged.

L. You will recall that we said in the first *Lusitania* note that we thought it was impossible to use submarines in a really humane way and that later, in our note of July 21, we said that the way submarine warfare had been conducted for the past two months showed that it was possible and therefore we hoped that course would be pursued. Then we had the sinking of the *Arabic* right on top of that, which was another great disaster. Our position is that, if submarine warfare had been conducted in that way, that possibly there would have been no further question raised. But it has not. It has been conducted in the most indiscriminate way and we cannot help but believe that it is ruthless. In those conditions submarine warfare should stop against commercial vessels, unless visit and search is observed.

B. That, of course, is impossible. Germany cannot abandon submarine warfare. No government could come out and say—"We give up the use of submarines." They would have to resign.

L. What possible methods in the use of submarines, that are effective from a belligerent standpoint, can be suggested which will comply with the law?

B. I had always supposed that warning was to be given.

L. We do not consider that the people on board—the non-combatants on board the vessels—are in a place of safety when put into an open boat a hundred miles from land. It might be calm there, but in the two days it would take them to reach land there might be a severe storm. That is one of the grounds of complaint.

B. That, of course, speaking of neutral vessels——

L. The fact that we do not have Americans on these vessels does not remove the menace to American lives. The sinking of neutral vessels shows that Americans cannot travel with safety on neutral vessels even. That is the serious part of it and I do not know how your Government can modify submarine warfare and make it effective and at the same time obey the law and the dictates of humanity.

B. Humanity. Of course war is never humane.

L. "Humanity" is a relative expression when used with "war" but the whole tendency in the growth of international law in regard to warfare in the past 125 years has been to relieve non-combatants of needless suffering.

B. Of course I think it would be an ideal state of affairs, but our enemies violate all the rules and you insist on their being applied to Germany.

L. One deals with life; the other with property.

B. Yes.

L. The German method seems reckless to me. It is as if a man who has a very dim vision should go out on the street with a revolver in search of an enemy and should see the outline of a figure and should immediately fire on him and injure him seriously and then go up and apologize and say he made a mistake. I do not think that would excuse him. That seems to be the course pursued by your submarine commanders—they fire first and inquire afterwards.

B. I myself cannot at all explain how it comes that so many neutral vessels have been attacked. I have not the slightest evidence. I do not know anything about it from our communications.

L. Of course we are gradually collecting the evidence. We have not in all the cases but we have in certain ones. The *Tubantia*, for example, seems to have been torpedoed by a German torpedo—a Schwartzkopf.

B. She was at anchor.

L. No. I do not think she had let her anchor down but she was preparing to anchor. She was at rest.

B. Yes, I know. And then there was a Spanish vessel which——

L. Of course there is this, Mr. Ambassador, that any discussion of the submarine and its present method of attack cannot go on indefinitely.

B. What was your idea to prevent the break—that we should for the time being stop?

L. I think the only way is to declare an abandonment and then if the German Government desires to discuss a method of renewal——

B. An absolute abandonment, to my mind, is impossible. It might be possible to announce stopping for a time for discussion and giving the reason plainly for the purpose of quieting our public opinion, that might be possible.

L. I understand that you are speaking entirely without instructions.

B. I am not at all instructed. I am speaking to you purely from my desire to prevent a break.

L. In view of our note I would not want to say that that would be satisfactory, but if it was made——

B. I am only trying to see what can be done because a declaration to my Government to absolutely abandon submarine warfare would make a break absolutely necessary. To abandon it would mean the overthrow of the Chancellor.

L. Probably you would get a more radical man. I realize that.

B. So the question is what we can do.

L. There would have to be a complete abandonment first and then if the German Government desires to discuss the matter——

B. I want to do what I can, because I am perfectly convinced they do not want to break; quite apart from the sentimental side I think they do not want a break. A break would prolong the war. It would last for years.

L. We do not any of us want to prolong the war.

B. That is exactly why I want to get out of this present difficulty. From the present state of affairs it looks as if the end is coming and if now there was a break and the United States was brought into the war it would prolong it. It would cause new complications.

L. New complications?

B. New economic difficulties.

L. I think that would be Germany's problem. The only possible course is an abandonment of submarine warfare, whether limited or not would depend on the terms. I would want to see an abandonment first and then possibly a discussion could follow as to how submarine warfare can be conducted within the rules of international law and entire safety of non-combatants, because, of course, in my viewpoint that is the chief question of international law in regard to attacks by belligerents on enemy's commerce.

B. Then I am to understand that you do not recognize the law of retaliation?

L. We do not recognize retaliation when it affects the rights of commerce.

B. The British retaliate by stopping all commerce to Germany.

L. It is a very different thing. The right to life is an inherent right, which man has from birth; the right of property is a purely legal right.

B. Only in this case, England's methods affect the lives of non-combatants of Germany.

L. Not neutrals.

B. No, but it affects non-combatants.

L. Does it affect their lives? I thought from the statements which have been made that Germany was not suffering from want of food.

B. But they are trying to starve them. You do not stop England but insist we must stop our retaliation.

L. But you must appreciate that we care more for the lives of our people than we do for the property.

B. We have the same difficulty—our people are getting to care more for lives. That is the whole difficulty—we are dealing with a warlike population.

L. I realize that. I appreciate that you have great difficulty with your public.

B. If you and I were to have the say in settling the case it would be an easy matter, because one can discuss the matter without heat.

L. I realize that. It makes it very difficult, but I do not think there is any other course. That certainly may be an impossible course for your Government to pursue, yet I see no other way, and I think I am as anxious to preserve peace as anyone.

B. I wanted to find out what I could do, because I do not see how they can do it though they might do it temporarily. I am sure that in the first place they would say they believed in the submarine entirely and that secondly the rules of international law must be modified by conditions. Your idea is that the submarine cannot be used if it does comply with the rules.

L. That is true. My view is that certain instruments of war are not proper to use under certain conditions, and that is the viewpoint that has largely been held in regard to the submarine as a commerce destroyer. You can not and do not know the nationality of the boat attacking. It attacks without being seen and so avoids responsibility. It gives every opportunity to kill indiscriminately and recklessly.

B. I perfectly agree with you that sinking without warning would have to stop entirely, sinking without warning is an international offense, and that is why I thought possibly my Government might give up the retaliation, but I do not think it would be possible to say we would give up submarine warfare. I do not think we would do it.

L. And if they should now sink another vessel it would be very serious—that is the way I look at the situation.

B. And if they continue the submarine warfare and an instance should happen directly after the break of diplomatic relations, if that should come, it would be still more serious.

L. That is logical.

B. That is why I look at it so seriously.

L. I do not feel that breaking off of diplomatic relations necessarily means war.

B. I do not say it myself but I do not see how it can be avoided. If we refuse it will be because we are to continue submarine warfare and then something might happen which would mean war. I came to see if something could not be done.

L. I am very much obliged to you for coming in, sir.

B. Good bye, Mr. Secretary.

L. Good bye.

EXHIBIT NO. 2533

State Dept. Doc.
763.72/2653½

(Personal and confidential)

APRIL 25, 1916.

MY DEAR MR. PRESIDENT: In view of the press despatches which are coming from Berlin—although we have received nothing of an official nature indicating the course which the German Government will pursue—I am convinced that there will be an attempt to compromise in the declaration, if they do make any declaration in regard to the abandonment of submarine warfare. Any conditions which they may advance will undoubtedly be based upon their position as to armed and unarmed merchant vessels.

It would seem to me a decided strategic advantage to have made known clearly our position in regard to armed vessels before Germany presents her reply. To do that it will be necessary for us to make public in some way the memorandum which I sent you Monday morning, and which you returned to me with your general approval. It could be done by a formal statement issued from the Department; by sending the memorandum to the various belligerents; or by sending it to the Committees on Foreign Relations and Foreign Affairs in Congress. If it seems advisable to you to do this it seems to me that the time to do it is at once, before we receive Germany's reply.

Faithfully yours,

[s] ROBERT LANSING.

P. S. Since writing the foregoing Mr. Polk has just handed me the enclosed memorandum of a conversation over the telephone with Colonel House this afternoon.

State Dept. Doc.
763.72/2653½

Memorandum for the Secretary, April 25, 1916

Colonel House called me up this afternoon shortly after four and said he had just had a conversation with the German Ambassador who had heard from his Government. His Government is most anxious to avoid a break and asked him what was the best course to pursue. They also asked him what was meant by "illegal method of submarine warfare." These two questions will be answered by the Ambassador without going to the Department of State.

His Government also wanted to know if they gave up submarine warfare what the United States would do about the blockade.

Colonel House advised him to tell his Government not to send a note suggesting a compromise, and, above all, not to raise any question in regard to the blockade. He stated the only safe course to pursue would be to advise the German Government to agree to discontinue submarine warfare pending negotiations.

This the Ambassador said he would do at once, and also said he would warn them not to send anything in the nature of a note. In regard to the Blockade, Colonel House pointed out that our relations, as far as Great Britain is concerned, are quite different from our relations with Germany; that war with Germany would be possible, whereas, war with Great Britain was more or less out of the question. This the Ambassador said he understood.

Colonel House thought it advisable to issue at the earliest possible moment the memorandum on armed merchant vessels, a copy of which he had seen. He suggested that it be issued tonight for the morning papers, but I told him in the absence of the President that it was impossible. He urged that the matter be presented to the President with the suggestion that the memorandum be given out not later than in time for the afternoon papers Wednesday.

He suggested one or two changes in the wording of the memorandum. These changes have been called to your attention and have been made.

FLP/S

("Exhibit No. 2534" appears in text on p. 8493)

("Exhibit No. 2535" appears in text on p. 8493)

Exhibit No. 2536

[From the House Collection, Custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

THE WHITE HOUSE,
Washington, July 23, 1916.

Mr. EDWARD M. HOUSE,
New London, New Hampshire.

DEAREST FRIEND: Thank you for the many useful and enlight[en]ing letters which I have not been able to acknowledge separately. They go into my thinking, and go, you may be sure, to the very heart of it, and are invaluable to me.

You will have seen by the papers that we have called Page home from London for a vacation in which it is our hope that he may get back a little way at least to the American point of view about things.

I am, I must admit, about at the end of my patience with Great Britain and the Allies. This black list business is the last straw. I have told Spring Rice so, and he sees the reasons very clearly. Both he and Jusserand think it is a stupid blunder. I am seriously considering asking Congress to authorize me to prohibit loans and restrict exportations to the Allies. It is becoming clear to me that there lies latent in this policy the wish to prevent our merchants getting a foothold in markets which Great Britain has hitherto controlled and all but dominated. Polk and I are compounding a very sharp note. I may feel obliged to make it as sharp and final as the one to Germany on the submarines. What is your own judgment? Can we any longer endure their intolerable course?

I dare say you were surprised by the nomination of Clarke for the Supreme Court, because I suppose you did not know him; but I am confident you will approve when you know all about him. He is close friend of Newton Baker's and Gregory (whom I love and trust more than ever) picked him out.

I have not been very well for the past week or two,—since I came back from Detroit. My digestion has been upset in some way. But I am slowly getting it in shape again, I believe, the undeniable truth being that a rest, a real rest, has been now a long time overdue. I wish I were in better trim for the campaign.

All join me in affectionate messages.

Faithfully and gratefully yours,

(Signed) Woodrow Wilson.

Exhibit No. 2537

[Lansing Collection, Manuscript Division, Library of Congress]

July 24, 1916.

Honorable Robert Lansing,
Henderson Harbor, Watertown, New York.

My Dear Mr. Lansing: I am delighted to hear from Sweet that you are enjoying your holiday and look like yourself once more. I tried not to bother you any more than I could help, but, of course, there are certain matters in which I could not take the responsibility of going ahead and not letting you know what was going on.

As to the Danish matter, Woolsey returned Saturday morning and has been at work on it. He sent a letter to you Saturday covering the objections that had been found. I also told him to send a message to Brun, in Bar Harbor. He has not yet come in, so I do not know what was done.

The Mexican matter is dragging on, but I hope to come to some sort of closing within the next few days. It may be necessary in the end to accept their Note and express a hope that the Commission will also investigate other matters that are causing trouble between the two countries. It was an absolute piece of bad faith on Carranza's part in publishing that Note and it was quite as much a surprise to Arredondo as it was to us. I rubbed it in hard and told him that we must have some explanation. I am afraid that is what it is going to be in the long run, as I have no faith whatever in anything they say. I have been spending a lot of time with Lincoln Steffens and some of the other socialistic friends of the Mexican Government and they are tremendously impressed with our good intentions. I think Steffens almost considers me qualified for membership in the Socialist Party. Fletcher has been useful as an interpreter, besides many other ways. He and Arredondo have established more or less pleasant relations.

I received your letter enclosing the suggestion of E. D. Morgan, in regard to the *Deutschland*. That is one of the points that has been raised in connection with this matter and I have kept in close touch with the Neutrality Board. Would you care to read their report? I took particular pains in announcing the report to make it negative and stated that this was no precedent.

I also received your letter enclosing letter of Hamlin. I will take the matter up at once and will write Hamlin that I have the papers. I suppose you have followed the English blacklisting and have seen the Mail Note. The British Government certainly seems to be doing its best to get into a row. I have had two talks with Spring Rice and told him that the President considered it a very serious matter and that it might be difficult to prevent Congress from passing some retaliatory legislation. Personally, I think the time has come to stand up to them. Of course, this blacklisting is nothing new, but if we let it slide, it will give the Germans abroad and here very good grounds for saying we are not even handed in our justice. Why in the world they should have felt it necessary to publish it, heaven knows.

It has been pretty hot here in spots, but on the whole I have been quite comfortable. I have the date of your return marked on my calendar and am hoping that there will be no serious blow-up before your return. What happens after that date will have my sympathetic interest. I have kept in close touch with the President and will try not to bother you any more than I can help.

By the way, the question of the personnel of the Commission is being discussed. There has been some doubt expressed as to Chief Justice White. I personally think it would be a mistake not to appoint him, particularly on account of his religion. I think Brandeis would be a good appointment, and Lane. President Elliot has been suggested, but I think the Commission, if composed of the other three, would be more useful.

Please present my kindest regards to Mrs. Lansing, also to General and Mrs. Foster. Hoping you are catching plenty of fish,

Yours faithfully,

FRANK L. POLK.

I find Woolsey wrote you in detail on the Danish Treaty.

EXHIBIT No. 2538

[Lansing Collection, Manuscript Division, Library of Congress]

JULY 28, 1916.

Honorable ROBERT LANSING,
Henderson Harbor, Watertown, New York.

MY DEAR MR. LANSING: I enclose a copy of the Note which was sent to Great Britain in regard to blacklisting. It is to be published on Monday morning. You will have no difficulty in recognizing the style. In some ways I think it would have been better if it had a little bit more punch, but if you read it carefully, it seems to me, the punch is there.

This week has been absolutely hideous. The Danish treaty made trouble, but the blacklist has caused an awful row. The innocent and the guilty have come down here together, wildly protesting. It was an extraordinarily stupid move on the part of the British and both Jusserand and Spring-Rice threw up their hands over it. I think Spring-Rice is secretly pleased that the Foreign Office has made a bad break and apparently acted contrary to his advice.

I pointed out to both the French and Italians how this blacklist is going to ruin their South American business, as most of the agents down there are German firms. Spring-Rice tells me that he thinks that we will have "a diplomatic victory." There were so many angles to it that they did not foresee that we really had a splendid case. I found that banks were refusing to give drafts to blacklisted firms. This even aroused the ire of that well known pacifist, John Skelton Williams. The British consuls have been sending out blacklists to a number of custom house brokers in New York.

I enclose a copy of a telegram I sent you yesterday in regard to the Danish treaty. I saw the President on Wednesday and told him of your telegram and that you had also written a letter, which had not been received, pointing out your objections. He said that he felt we should go ahead at once and take a chance on the defects, whatever they might be. I told him of your objection to giving special rights to Danish subjects, and also that there was a concession the details of which we had not received. He told me that he thought we would have to take a chance on both those points and go ahead.

Thursday, yesterday morning, I called him on the telephone and told him we had received your letter addressed to Mr. Woolsey and asked if he wished to see it. I again told him what the objections were and added that there was some question in your mind as to the declaration in regard to Greenland. He again said please to notify Brun at once by telegraph that we accepted the text of the treaty.

After reading your letter, I decided to send it to him and also a copy of the declaration in regard to Greenland, which, up to that time, he had not seen. In the letter I told him that Brun had telegraphed me in the morning (this was Thursday) that he would like to have the Department telegraph a formal acceptance, but that he had already cabled for full powers to sign. I said to the President that as long as Brun had not waited to hear from the Department before cabling, I was sending over your letter so he could see what your objections were. I waited until after six and not having heard from him, I sent a message to Brun as follows:

"Your telegram July 27th. On behalf of the Government of the United States I accept the text of treaty forwarded in your letter of the 18th instant and accompanied by a memorandum of your Government dated June 28, 1916. In order to clear up the English translation, I have had to make two or three verbal changes which do not in any way affect the sense of the text. Please telegraph me what the words quote capitals allotted to the churches unquote in Article two mean. Do they mean investments made by the churches or moneys allotted to the churches out of the revenues of the Islands?"

Apparently the President called me up shortly after this, but I had gone. I called him from the Metropolitan Club a little after eight and he told me that he had read your letter and the proposed declaration in regard to Greenland and still felt that the treaty was so important that we would have to make every concession in order to get it through at once. I told him that I had already sent the message to Brun. He said that was quite right.

Arredondo stayed away and sulked for several days. Yesterday, Thursday, he came in and assumed full responsibility for everything. He said that Carranza had definitely turned down our suggestion of a modification and that he, Arredondo, had continued negotiations without informing Carranza, to see if he could not reach some settlement here. He also said that he had failed to notify Carranza of our agreement not to make any statement to the press in regard to the negotiations or the Note. I showed nothing more than a polite interest in his story, but felt compelled to accept it, with the suggestion that hereafter it will be well to see that our understanding is carried out. He put it in such a way that we had to accept it.

I then submitted to the President a suggested answer which says we are disposed to accept Carranza's proposal and that the President hopes the Commission will also take up other matters, the settlement of which would tend to improve the relations of the two Governments. I will send you this when I have it in form, sometime this afternoon.

I should have written you before and kept you posted of what is going on, but I really have not had a moment as the place has been filled with Senators, Representatives, and prominent politicians bringing in victims of the blacklist. In between time, Lincoln Steffens and other gentlemen with ready reliefs for Mexico, have been on my shoulders.

It was very hot yesterday and the day before, but it is delightfully cool today, though frightfully damp.

Please give my kindest regards to Mrs. Lansing and to General and Mrs. Foster.

Yours sincerely,

FRANK L. POLK.

Enclosures.

EXHIBIT No. 2539

DEPARTMENT OF COMMERCE,
OFFICE OF THE ASSISTANT SECRETARY,
Washington, September 16, 1916.

Memo for Dr. PRATT.

Kindly note the portions marked in blue pencil of the enclosed laws of Congress. These are the so-called "Retaliatory Measures" passed by the recent Congress with the view of combatting hostile trade regulations of European belligerents.

Mr. Sweet requests that you prepare very carefully for Mr. Woolsey of the State Department a statement showing just what practical measures we could take in regulating trade "that would hurt others the most and ourselves the least"; what commodities we should aim to control; and just how far our imports and exports regulations should go so that we should not do ourselves more harm than good. The aim should be to single out commodities in pursuance of the above policy that would bring other countries "to time."

Mr. Sweet also requests that you prepare for Mr. Woolsey a statement showing exports of ammunition and munitions classified in groups, as cannon, shells, etc. The amounts to the various countries or to the Entente Allies as a whole would be satisfactory, and the data should go back as far as possible to the beginning of the war. But all possible information along the lines of the above relative to munitions should be given to the State Department.

Speed is of the essence in both the above requests.

ROBERT H. CLANCY,
Private Secretary.

DEPARTMENT OF COMMERCE,
BUREAU OF FOREIGN AND DOMESTIC COMMERCE,
Washington, October 23, 1916.

The SECRETARY OF COMMERCE: Please note with special care the accompanying letter to the Secretary of State with the memorandum inclosed therein. This work was taken up at the request of Mr. Woolsey, Assistant Solicitor of the State Department, who called on Mr. Sweet. On account of the delicacy of the question and its great importance no pains have been spared in the preparation of the memorandum.

E. E. PRATT.

FRR–WMS.

EXHIBIT No. 2540

Foreign Relations 1916 Supp., p. 466.
File no. 763.72112/3094

DEPARTMENT OF COMMERCE,
OFFICE OF THE SECRETARY,
Washington, October 23, 1916.

(Ink) Mr. Polk, Apr. 4/17

The SECRETARY OF STATE,
Washington, D. C.

SIR: During my absence from the City Mr. Woolsey, of your Department, called upon Mr. Sweet, then Acting Secretary of Commerce, and requested a statement showing what measures could be taken in regulating trade that would be effective and, at the same time, least injurious to this country, and also a statement showing the exports of ammunition from the United States to the various belligerent countries.

In compliance with the first request, a memorandum, compiled in the Bureau of Foreign and Domestic Commerce, of this Department, is inclosed. It was understood that the request for information was directed primarily to the Act to Establish a United States Shipping Board, approved September 7, 1916, Section 36, and the Act to Increase the Revenue and for Other Purposes, approved September 8, 1916, Sections 804 to 806. The memorandum treats the subject from the commercial point of view, not the legal. The interpretation of the different provisions of law is, of course, a question for your Department to determine, and, accordingly, the memorandum has not been submitted to the legal officers of this Department for an opinion. At the same time, some of the provisions that seemed open to more than one construction have been indicated, but only so far as they are involved in the consideration of the commercial phases of the subject. In a memorandum covering so wide a subject, and one of such great delicacy and importance, only the main features of the situation could be discussed, and these could be treated only in a rather cursory manner. A more detailed study of the probable commercial effect of any measures that in your judgment merit further consideration will gladly be made.

In compliance with the second request, two statements are submitted, one showing the exports of firearms, cartridges, gun powder, and other explosives (except dynamite), from the United States to the various countries of Europe and Canada, Japan, Russia in Asia, Australia, New Zealand, and other countries during the fiscal years ending June 30, 1915 and 1916, and, for purposes of comparison, a statement extracted from Commerce and Navigation showing the exports of these same articles to the various foreign countries during each of the five years ending June 30, 1915.

Respectfully,

WILLIAM C. REDFIELD, *Secretary.*

Inc. 7255
FFR–WMS.

MEANS OF COMBATING FOREIGN RESTRICTIONS OF AMERICAN COMMERCE

LEGAL PROVISIONS

The Act to establish a United States Shipping Board, approved September 7, 1916, Section 36, and the Act to increase the revenue and for other purposes approved September 8, Sections 804 to 806, contain certain provisions designated to combat restrictions placed by foreign countries on American commerce. Some of the provisions are concerned particularly with restrictions applied by nations now at war. An abstract of the several provisions contained in the two laws cited as follows:

Nature of restriction	Remedy provided	Reference
Import restrictions:		
If any country prohibits importation of any non-injurious product of U. S.	President may prohibit importations of similar (or, if such are not imported into U. S.) other products to such country.	Revenue, sec. 804.
If (during a war, by laws, regulations or practices, contrary to the law and practice of nations) any country prevents or restricts importation of any non-injurious product of U. S. into same or other country.	President may prohibit or restrict importation of similar or other products of such country.	Revenue, sec. 805.
Discrimination by vessel:		
If any vessel refuses appropriate cargo	Secretary of Treasury may refuse clearance to such vessel.	Shipping, sec. 36.
If (during a war, on account of laws, regulations, or practices of a belligerent Government) any vessel gives undue preference to, or unduly discriminates against any particular shipper or particular description of cargo.	President may detain vessel	Revenue, sec. 806.
Discrimination against American vessel or American citizens:		
If (during a war, by laws, regulations, or practices) any belligerent country withholds from American vessels or American citizens any facilities enjoyed in U. S. by vessels or citizens of such belligerent, or accorded by such belligerent to vessels or citizens of other nationality.	President may withhold clearance from one or more vessels of such belligerent, or may refuse similar facilities in U. S. to vessels or citizens of such belligerent.	Revenue, sec. 806.

Import prohibitions.—There are two provisions directed against import prohibitions of foreign countries, the one general in its character, and the other concerned directly with the restrictive measures of belligerents. The general provision authorizes the President to prohibit the importation of products of any country that prohibits the importation of any product of the United States that is not injurious to health or morals. The products selected by the President, according to a strict wording of the provision, must be similar to those prohibited from the United States. Other articles may be selected by the President "in case the United States does not import similar articles from that country." The legal interpretation of the word "similar" offers considerable difficulty. If interpreted in a broad way, it would be very difficult to show that "similar" articles are not imported, and, therefore, the President would be required to select such articles for prohibition. The very fact of the foreign prohibition against imports would indicate that normally the foreign country would import the articles in question from the United States. If such is the case, economic conditions would prevent any considerable import of the same articles, unless of widely different grade or class, from such countries into the United States, and accordingly our legal prohibition would be of little effect.

In several respects the provision intended to offset restrictions imposed by belligerent countries by Section 805 of the Revenue Act offers greater latitude. The restriction, as well as the prevention of importation by a belligerent may be penalized; the action may affect importation into the country itself or into any other country; the President may restrict, as well as prohibit the importation of products of such country into the United States; and he may select any article—"similar or other articles"—for retaliation. So far, therefore, as action on the part of this country may be desirable because of import restrictions imposed by belligerent countries, it will be found more convenient to use the authority conferred by Section 805 than that conferred by Section 804 of the Revenue Act.

Discrimination by vessels.—The next phase of restriction is discrimination on the part of vessels. Here again there are two remedial provisions, one contained in the Shipping Act, Section 36, and the other contained in the first paragraph of Section 806 of the Revenue Act. According to the former, the Secretary of the Treasury may refuse clearance to any vessel that refuses appropriate cargo. According to the latter, the President may detain any vessel that gives undue preference to any particular shipper or particular description of cargo, or unduly discriminates against any particular shipper or particular description of cargo. The first provision is general in its application, while the second is limited to discrimination occurring during a war in which the United

States is not engaged and resulting from the laws, regulations, or practices of a belligerent Government.

In order for the Secretary of the Treasury to refuse clearance to a vessel in accordance with the Shipping Act, five things must be shown to his satisfaction:

1. That the vessel has refused to accept freight;
2. That the freight was offered in good condition;
3. That the proper transportation charges were tendered;
4. That the vessel has space available with due regard to its proper loading; and
5. that the vessel is "adaptable" for the freight.

On account of the rigid wording of the Section, it is unlikely that any action will be taken under this provision, if the discrimination complained of can be regarded as due to the law or practices of a belligerent Government. The provision under the Revenue Act is much wider in scope. It covers any undue preference granted to one shipper over another, or to one kind of freight over other kinds. The President may either withhold clearance or give formal notice forbidding the departure of the vessel.

Discrimination against American vessels and citizens.—The third kind of restriction for which the Revenue Act, in the second paragraph of Section 806, provides a remedy, is discrimination by belligerent countries against American vessels or American citizens. The discrimination may consist not merely of preference granted to other nationalities over Americans, but also of failure to accord reciprocal privileges to American vessels and American citizens—that is, in other words, withholding from American vessels and American citizens privileges or facilities granted by the United States to vessels or citizens of such belligerent country. The language used is very broad and might well be construed to cover any direct discrimination against American vessels or American citizens, or any failure to observe full reciprocity of trading privilege. If thus construed, it would cover, for example, any restrictions placed on citizens of the United States whose names might appear on the blacklist of a belligerent country, or any curtailment of the right of American citizens to deal with blacklisted firms in other countries; and it would also cover any failure to allow coaling or other privileges to vessels carrying cargo shipped by, or consigned to, black-listed firms. At the same time it would doubtless be argued by a belligerent country that there was no discrimination in such cases—that American vessels were treated just like vessels of any other nationality, and American citizens like those of any other nationality. While trade by blacklisted firms, it might be admitted, is prevented so far as possible, the restriction applies equally to blacklisted firms of American nationality, and those of all other nationalities.

In case of discrimination or failure to grant reciprocal privileges, the President has two options:

1. He may withhold clearance from one or more vessels of such belligerents, or
2. He may refuse to vessels or citizens of such belligerents "similar privileges and facilities, if any, enjoyed * * * in the United States or its possessions.

INJURIES SUFFERED

The formal acts of belligerent countries that have operated to restrict American commerce fall under four items as follows:

1. Embargoes or export restrictions,
2. Import prohibitions or restrictions,
3. Orders prohibiting trade with the enemy, and
4. Penalization of specified firms suspected of having aided the enemy commercially (blacklist) or confining trade exclusively to approved firms (whitelist).

A distinction may properly be drawn between export and import restrictions on the one hand, and the restrictions on neutral trade with the enemy, or with blacklisted firms on the other hand. In theory at least, the former are intended to determine merely the lines of trade in which the country itself shall engage; their principle is sanctioned by international law; exception may be taken only to their extension beyond the point of commercial necessity, or their application in such a manner, as to discriminate against particular neutral countries, or conflict with treaty stipulations. Restrictions on neutral trade with the enemy in non-contraband goods have, on the contrary, no sanction in international law. Official blacklists constitute a new device in trade warfare, and are equally repugnant to international law. In other words, the prohibition against dealing with blacklisted concerns applies only to citizens of the country issuing the list. American houses are nominally free to trade with blacklisted concerns, say in Argentina, but in practice, the carrying trade of the world is so largely controlled by the belligerents that it is practically impossible to make a shipment to foreign countries that is not at some stage shipped by a vessel or handled by an intermediary that owes allegiance to the United Kingdom, or some other belligerent. Since no British vessel, or British citizen is allowed to trade with blacklisted firms, the prohibition operates indirectly as a restriction on American commerce.

In general, the laws and orders have been very carefully framed so as to avoid, at least nominally, any discrimination against individual countries, or the vessels or citizens of such countries. By commercial treaty most of the countries at war have guaranteed equality of treatment to other countries, and every effort has been made to avoid any apparent infringement of the treaty provisions. Only Russia in its embargo, gives certain advantages to allied countries that are withheld from neutrals. All other belligerent countries place neutral countries, outside of Europe, on terms as favorable as are accorded to any foreign countries. There was for a time one exception in the British embargo. From May to August, 1915, the United Kingdom prohibited the exportation of coal to all countries except British possessions and the allies. Similarly in the case of import prohibitions, the position of the United States has been the same as that of the allies.

In actual practice, however, it is at least possible that the allied countries have enjoyed greater privileges than were accorded to the United States. Exceptions are granted in individual cases, both for exportation and for importation. Recently arrangements have been made whereby licenses for importation into France may be granted in London and licenses for importation into the United Kingdom may be granted in Paris. No blacklist has been published of firms in allied countries. It might naturally be argued, of course, that no blacklist is necessary in such cases, since the country itself has presumably taken action to prevent the commercial activity of enemy firms there resident.

Embargoes on exports.—In order of time the embargoes against exportation come first. The effect of these measures has been to render extremely difficult the purchase of many important raw materials. Such as have been obtained have frequently had to be purchased under guarantee not to export the finished product into which the raw material entered. Indirectly, therefore, the embargo in its actual operation may be deemed a practice that restricts the importation of non-injurious products of the United States into countries other than that laying the embargo. While the Revenue Act provides no special remedy to combat foreign embargoes, the embargo viewed as an indirect restriction on importation into a third country may justify the prohibition, or restriction of importation into the country laying the embargo. Moreover, since no embargo has been imposed by this country the European embargoes may be viewed as withholding from American citizens the facilities or privileges granted by the United States to citizens of the belligerent countries. In accordance with that view the President may withhold clearance from one or more vessels of the belligerent, or may refuse corresponding privileges to citizens of the belligerent country. Indirectly, therefore, under a broad construction of the law, it might be held that the President may impose an embargo to offset the European embargo. The failure of Congress explicitly to authorize the laying of embargoes might well lead to the adoption of a narrower construction of the second paragraph of Section 806 of the Revenue Act.

Import restrictions.—The import prohibitions of belligerent countries came much later. Originally the lists were confined to articles of luxury and were justified as a means of enforcing economy on citizens of the warring countries, and as a means of conserving cargo space. In Italy the list is still limited to articles that may be deemed luxuries. In France the list has been extended considerably beyond that point, and in the United Kingdom a much longer list is now in force. In spite of the special licenses for importation that have been granted, the prohibition has resulted in much loss to American exporters, especially in the case of goods for individual use, as distinct from Government purchases. At the same time, import prohibitions cut off only a single market for our output, while export prohibitions may affect the whole supply of the selected raw materials, and thus indirectly restrict the exportation of the whole output manufactured therefrom.

Trade with the enemy.—The British Orders in Council, by preventing trade between neutral countries and enemy countries, have proved to be the most serious restriction that has been applied to American commerce since the war began. Trade, both import and export, has been cut off between the United

States and the central powers. The restrictions imposed by the United Kingdom and other countries at war are in effect applied by the steamship companies. To carry cargo contrary to the regulations in force means stoppage, delay, and loss, and consequently the owners and officers of vessels observe strictly the commercial regulations of the belligerent countries.

For this reason the refusal of a vessel to accept noncontraband goods directly or indirectly for a port or city of Germany or Austria-Hungary, may be deemed undue discrimination on account of the laws, regulations, or practices of a belligerent Government, and as such, would justify the President, under the first paragraph of Section 806 of the Revenue Act, in detaining the vessel.

Preference given to shipments accompanied by a license from a belligerent over shipments without such license may similarly be deemed to fall under the same provision of law. At the same time, if preferred, the regulations may be deemed to constitute a restriction or prohibition of American products in countries other than those that impose a restriction, and as such, to authorize the President to prohibit or restrict the importation of any products of the countries prescribing the regulation in question.

Blacklisting.—The situation in respect to the blacklisting of specified American concerns, and concerns in neutral countries is much the same. It may be regarded (1) as a restriction of the importation of American products into certain countries; (2) as an undue discrimination on the part of vessels that refuse cargo shipped by or to a blacklisted concern; or (3) as a failure to extend to certain American citizens the same privilege that the United States accords to all citizens of the belligerent country. According to the first view, the restriction falls under Section 805 of the Revenue Act, and the President is authorized to prohibit or restrict the importation of any product from the country imposing the restriction; according to the second view, the restriction falls under Section 806, first paragraph, of the Revenue Act, and consequently the President may detain the vessel that refuses the freight offered; according to the third view, the restriction falls under Section 806, second paragraph; of the Revenue Act, and the President may withhold clearance from one or more vessels of the belligerent, or may refuse the Commercial privileges in the United States to some or all citizens of the belligerent country that issues any blacklist against American firms.

FEASIBLE MEASURES

Without question, the measures taken by the United Kingdom during the present war, have proved much more injurious to American commerce than the restrictions imposed by any other belligerent country. This is due in part to the comprehensive character of the restrictions imposed by the United Kingdom, and in part, to the enormous volume of trade between the United States and the United Kingdom in normal times. The control by the United Kingdom of the most important sea routes, and the preponderance of British shipping over the shipping of any other nationality combine to make the restrictions imposed by the United Kingdom effective, and injurious to American commerce. What steps, if any, can be taken under the Shipping Act and the Revenue Act to induce the United Kingdom to relax its requirements, and at the same time cause the least injury and friction to American business?

Three means of retaliation are provided in the two Acts: (1) Prohibition or restriction of imports, (2) refusal of clearance or positive detention of vessels, (3) withdrawal of privileges from vessels or citizens of the country imposing the restriction.

Restriction of imports.—The prohibition or restriction of imports is the most natural means provided for combating foreign import prohibition. It may equally well be used to combat the Orders in Council forbidding trade with enemy countries. Under a broad interpretation of the law, it may be used to combat foreign blacklists; and, under a still broader construction, foreign embargoes.

If import prohibitions or restrictions are imposed in the United States, the authority conferred upon the President by Section 805 of the Revenue Act is more elastic and better adapted to the purpose than the authority conferred by Section 804. All of the Acts complained of on the part of foreign countries have occurred during the European war and have been justified as war measures.

An import prohibition, to have the maximum effect, should cover articles produced largely by the country against which the prohibition is directed and at the same time procurable in sufficient quantities from other countries. Unless the country against which the prohibition is directed is a large producer of the article, the loss of a foreign market for it will not prove a severe injury. On the other hand, if the importing country has no alternative source from which to draw its supply, it may suffer from the prohibition more than the country against which the action is taken.

Under present conditions it is difficult if not impossible in many cases to find several sources of supply in adequate quantities for a given article. In the great majority of lines, therefore, a prohibition of imports by the United States as a retaliatory measure is likely to react more to the disadvantage of consumers, importers, and the trade generally in this country than to the detriment of exporters in the United Kingdom.

Such action would, moreover, without question be regarded as unfriendly, and might lead to retaliation—perhaps in the form of additional embargoes. The United Kingdom through its numerous possessions controls the source of supply of many important industrial materials. Any extension, or more rigid application of the British embargo is therefore to be averted.

Almost every article is imported to a greater or less extent from the United Kingdom. The products of the British Empire and of many foreign countries are reshipped from British ports to the United States. There are few distinctive products in comparison with our import trade with most other countries. Nineteen articles have been selected on account of the large proportion imported from the United Kingdom. Imports into the United States of these 19 articles from all countries represent 4 per cent of all imports for the fiscal year ending June 30, 1916; while the imports from the United Kingdom represent over 21 per cent of all imports from that country. The articles, with the values imported from all countries, and from the United Kingdom, during the fiscal year 1916 are as follows:

Articles	From all countries	From the United Kingdom
Cotton thread and yarn	$5,085,000	$5,056,000
Cotton cloth	8,846,000	7,394,000
Cotton laces	11,173,000	5,226,000
Cotton nets or nettings	2,113,000	2,064,000
Cotton plushes and other pile fabrics (except corduroys)	1,706,000	1,654,000
Earthen and crockery ware, decorated or ornamented	1,369,000	1,101,000
Ostrich feathers	2,195,000	678,000
Linens	11,256,000	10,850,000
Linoleum	513,000	487,000
Sausage casings	3,866,000	1,189,000
Mother of pearl	1,873,000	958,000
Artificial silk yarns and threads	2,924,000	1,293,000
Diamonds, uncut	11,443,000	10,676,000
Pearls, not strung or set	10,474 000	4,683,000
Malt liquors	1,457,000	1,308,000
Gin	750,000	603,000
Whisky	3,678,000	2,903,000
Woolen cloth	6,479,000	6,318,000
Woolen dress goods	1,806,000	1,663,000
Total, 19 articles	88,906,000	66,104,000
Total imports	2,197,884,000	308,443,000

This list might be extended almost at will. Taking it as it stands, however, four groups of items seem to call for particular consideration in connection with possible import prohibitions. These four groups are cotton manufacture; woolen manufacture; diamonds and pearls; and alcoholic liquors.

Among cotton manufacture, the three items most largely imported from the United Kingdom are cotton thread and yarn, cotton cloth, and cotton laces. Nettings and plushes are also imported, though to a smaller value than the items previously named. Our imports from the United Kingdom consist both of partly manufactured goods, such as the finer counts of yarns for weaving in this country, and of the more elaborate goods such as machine-made laces, nettings, plushes, and colored cloth. The only goods that may be considered strictly competitive are bleached and unbleached cloth, and even in these grades, it is understood that the imports from the United Kingdom consists in the main of finer fabrices than are produced in large quantities in the United States. That an import prohibition would encourage a larger domestic production of the finer grades for which we now depend chiefly on imports, goes without saying. To some extent this might prove a prominent advantage but only in the case of those lines in which the British and the American cost of production most closely approach. When it comes to those weaves that require a relatively large expenditure in wages, American mills can scarcely hope permanently to overcome the advantages of lower labor cost enjoyed by British mills. So far as the import prohibition encourages domestic makers to go into lines unsuited to our economic position, the permanent result would doubtless be a loss. Against the permanent gain that may be expected in certain lines must be offset the very considerable disarrangement of trade and consequent loss to American importers and consumers.

In the case of woolen goods, the situation is similar, with this exception—nearly all the raw cotton used in our cotton mills is American grown, while our woolen mills depend largely for their raw materials on foreign sources. The effect of any import prohibition against woolen cloth and woolen dress goods would undoubtedly be a stimulus to the woolen mills located in this country. The encouragement to them might result in a lasting gain to American mills and a lasting injury to British export trade. It must be realized, however, that protection to woolen factories over a long period has not resulted in establishing domestic industries capable of supplying all demands of this country. The decisive objection to an import prohibition on woolens is the fact of our dependence on British raw wool. Any restriction placed upon the importation of British woolen goods into this country would undoubtedly result in the rigid application of the British embargo against the exportation of raw wool to the United States. This might prevent American manufacturers from replacing by their own products, the finer grades of woolen cloth now imported from England, since the raw materials needed for the manufacture of such fabrics is obtained mainly from the British Empire. To cut off from our factôries, Australian and New Zealand wool would undoubtedly prove more hurtful than the suspension of British competition in cloth and dress goods would be helpful.

The prohibition against diamonds and pearls might cause some inconvenience and dissatisfaction, but no real hardship to consumers in this country. The natural effect of cutting off additional supplies would be an enhancement in price. Diamonds imported from the United Kingdom are mostly uncut while those imported from the Netherlands are received already cut. To some extent, therefore, a prohibition against the United Kingdom might tend to discourage diamond cutting in the United States. The difficulty of enforcing the prohibition against an article so small in bulk and so large in value is almost insuperable.

Malt liquors are largely imported from England and Ireland, gin is largely imported from England, and whisky is largely imported from Scotland, with a considerable amount also from Ireland. A prohibition of all alcoholic beverages from the United Kingdom might be approved not merely as a reprisal on account of British restrictions but also as a step toward reducing the consumption of liquor in the United States. It is likely, however, that the imported spirits would be replaced by larger quantities produced in the United States: if so, the measure might be favored by distillers and brewers in this country. Such an encouragement would probably prove merely temporary, since the foreign beverages are called for on account of differences in flavor and quality rather than cheaper prices.

As has been pointed out, a prohibition against the importation of woolens from the United Kingdom would doubtless result in cutting off supplies of British wool to the serious loss of manufacturers in this country. The prohibition against cotton manufacturers would not be open to this objection, but the injury it might cause to British exporters would probably be only temporary, except in a few lines in which American mills are now competing with British mills on terms almost of equality. The prohibition against diamonds and pearls and against alcoholic beverages is likely to cause much less injury to consumers in this country than the prohibition against cotton or woolen manufacture. Such measures might be advocated as indicative of our national resentment against British restrictions but it could scarcely be expected that any loss so inflicted on British trade would bring about the removal of the objectionable restrictions. As long as the war lasts British statesmen may be expected to subordinate commercial gains to military advantage. In the long run any reprisals taken by the United States that do not accomplish their purpose are likely to injure our prestige. In view of the probability of a vast modification of commercial relations after the war the maintenance of our prestige as a commercial nation is of prime importance.

If it be decided, as suggested in the foregoing argument, that it is undesirable to place an import prohibition against British merchandise, the question may be raised whether the prohibition of the importation of gold from the United Kingdom is advisable. The belligerent countries are in imperative need of goods from the United States. Those goods must be paid for by commodities, by securities, by loans or other instruments of credit, or by specie. It may be argued that, if the importation of gold is cut off, the belligerent must import less American goods, or ship more commodities in exchange, or sell more securities on our market, or obtain by loans or otherwise, larger credits in this country. The pressing need of supplies would probably render a contraction of imports from the United States more hurtful to the importing country than to the United States. The exports from the United Kingdom are now probably as large as the present industrial capacity of the country permits. There would remain then as the most feasible means to offset the prohibition against the importation of gold either the sale of securities on our market or the contraction of further loans, probably at higher rates of interest. The impossibility of enforcing a prohibition against gold, as pointed out in the next paragraph, is a decisive objection to such a measure.

So long as import restrictions are limited to countries that restrict, contrary to international law, the movement of American products into foreign countries, it will be difficult, if not impossible, to make any import prohibition fully effective. Even if the existing legal provisions are construed so as to authorize the prohibition of the indirect importation, through a neutral country, of the proscribed products of a belligerent country, the enforcement of the prohibition in all cases would be impossible. Proofs of origin would be necessary for all imports of such articles, and in spite of that requirement, some goods covered by the prohibition would probably be admitted into this country. Shipping charges and ease of identification differ vastly according to the nature of the article selected. The extra cost of shipping cottons or woolens by way of a third country might prove a sufficient deterrent, but in the case of gold, and still more in the case of diamonds, trans-shipment would entail comparatively little expense. British woolens and British spirits could generally be recognized, even if imported from another country; but gold can be readily exchanged and cannot be identified, and its prohibition could not be made effective, unless applied to all countries.

Detention of vessels.—The detention of vessels is the second means of reprisal sanctioned by the Shipping Act and the Revenue Act. As a means of correcting restrictive measures of belligerents this method seems most appropriate in the case of the Orders of Council, although it may be also applied probably as a method of retaliation against the blacklisting of American firms.

Against the use of this weapon it may be urged that the result would be to tie up a large volume of shipping of which our commerce is in dire need. If the British Orders in Council and the British blacklist are treated as a discrimination against the United States, or as a failure to accord reciprocal treatment, one or more vessels of British nationality may be detained by the refusal of clearance. Or any vessel refusing cargo because of these British regulations may be detained, no matter what its nationality. The last measure would simply cause the enforcement of the regulations to be placed in the hands of British naval officers instead of the officers of merchant vessels. Vessels refuse cargo merely to enjoy free and unhindered passage. If, by our laws, the vessels were compelled to accept such cargo, search and seizure of vessels by the British navy would be more frequent. The goods would not, however, reach their intended destinations unless convoyed by an American naval vessel with imminent risk of armed conflict.

Probably the most effective remedy would be to refuse clearance to vessels carrying war supplies until the Orders in Council and the blacklist are withdrawn. This would seem to be strictly within the authority granted to the President by the Revenue Act, Section 806, Par. 2, "To withhold clearance from one or more vessels of such belligerent country." In effect, however, this would be to lay an American embargo, and Congress failed to authorize expressly the laying of an embargo. Moreover, it may be doubted whether an embargo on arms and ammunition would be as successful now, as a year or more ago. More factories in the United Kingdom have been converted into munition plants. While our exports of arms and ammunition have been continuously on the increase, their need is now probably less pressing. In some cases, it is understood, American concerns have taken up this work only after a contract was given for a sufficiently long period to justify the necessary alterations or enlargement of the establishment. As a result, the embargo might prove in some cases more injurious to American manufacturers than to the countries at war, and might, in practice, effect the cancellation of a contract more highly regarded by the American concern than by the British Government.

If, instead of placing a virtual embargo on munitions, one be placed on wheat, it would. without question, prove highly inconvenient, if not distinctly harmful to the United Kingdom. One advantage of the wheat embargo is that it might be justified by economic conditions within our own country. Faced by a great shortage in our wheat crop as compared with the last few years, and with an abnormal export demand, the United States is confronted by the danger of a rise in price to a famine level. To offset similar dangers the belligerent nations have resorted to the embargo, and they could scarcely deem it an unfriendly act if the United States followed their example. On the other hand, the measure would arouse the strongest antagonism on the part of the vast number of wheat growers in this country. They would argue that it would be grossly unfair .by legal action to depress the price of wheat below that which would result from the unrestricted operation of economic causes, and would scarcely admit the force of the counter-argument that the embargo would merely remove the excessive demand from the nations at war.

It is very doubtful whether, under existing law, an embargo could be made really effective. Clearance might be refused to belligerent vessels but not to neutral vessels unless there was proof of actual discrimination between different shippers or different classes of freight. Moreover, the practical difficulty of enforcing the embargo is as great as the legal difficulty. If direct shipment to a belligerent was made difficult or impossible, the shipments might be made indirectly through a neutral country, and it would be difficult to justify an embargo against neutral countries or to require, in the face of shipments to such countries, a guarantee that the wheat or the munitions would be retained there.

Withdrawal of privileges.—The third remedy provided by the recent laws is the withdrawal of reciprocal privileges from vessels or citizens of a country that impose restrictions upon American vessels or American citizens. This remedy is most appropriate against the black list, although it might also be directed against the British embargo.

It should be repeated that there is no discrimination as such against American vessels, nor as such against American citizens. American vessels are treated like those of British nationality; if they are suspected of carrying enemy goods or unlicensed goods subject to an embargo, or goods belonging to persons on the black list, they are stopped and searched, and if found to carry an objectionable cargo may be ordered into a British port or coaling or other privileges may be withheld. Against most other countries, as well as the United States, there is an official black list or an official white list; and British citizens and other residents of the British Empire are even more strictly enjoined against trading with the enemy.

Coaling privileges in the United States might be withheld from one or more vessels. Trading privileges might be refused to certain British firms. The privileges of British subjects resident in the United States might be curtailed. Any of these steps, however, might be deemed an infraction of our commercial treaties, just as we deemed the action of the British authorities an infraction of our treaties, and without the excuse of being war measures. And any such step is likely to lead to a further withdrawal of privileges from American citizens.

The case of the United Kingdom has been considered in detail on account of its importance. Other belligerent countries have taken action that affected adversely our commercial interests. Many of these countries are more open to reprisals than is the United Kingdom. To take action against any of them, however, without similar measures against the United Kingdom would be unjustifiable.

CONCLUSIONS

Measures authorized by existing law.—Various possible measures have been pointed out. None of them, however, seem to promise any likelihood of success in the withdrawal of restrictions on American trade and would probably jeopardize our present position. In the belligerent countries, war for the moment is supreme; commercial considerations take a subordinate place. We can attack their commerce but our own commerce will unavoidably suffer in consequence even more than it has suffered from the restrictions placed on it by the countries at war. There is little likelihood by these means of obtaining the withdrawal of the objectionable regulations. Counter reprisals would be almost inevitable. The warring nations have not hesitated to place embargoes on their exports, thus suffering commercial loss for military gain.

And they would probably not hesitate to enforce more strictly existive embargoes, besides extending the present embargo list, in retaliation for any commercial restrictions that we might impose. At present, rubber, wool, jute, tin, plumbago, and certain other raw products essential to our industries are under export prohibition in Great Britain and in the various colonies and self governing dominions which are the principle sources of supply. Shipment of these articles have been continuously imported into the United States from British countries, however, under special agreements between the British Government and associations of leading importers of the various products. It is obvious that by a termination of these agreements, Great Britain could paralyze many of our industries.

We have suffered the effect of embargoes and Orders in Council for a long period—under protest but without retaliation. The restrictions are no more hurtful now than a year and a half ago. But the weapon then in our hands—an embargo on war munitions and supplies—has become dulled.

The most effective measure at our disposal is still a virtual embargo of arms and ammunition. It might still be applied if fully authorized by the Revenue Act, Section 806, 2nd paragraph, and if, upon investigation, it promises to be effective. To determine the first condition an authoritative legal opinion is necessary; to determine the second condition a report from a competent military authority should be had. A virtual embargo on wheat, though open to serious objections, comes second in point of availability.

Before any action is taken, however, one other point must be carefully weighed. For success in commerce after the war we need the friendship of the belligerents if it can be obtained and held without undue sacrifice. Is not their good will then likely to be worth more to us than the present temporary restrictions have cost us?

Conference of neutral nations.—If it should be decided to take no direct action under the provisions of the Shipping Act and the Revenue Act, one other step might well receive consideration. An international congress of neutral powers might be called to discuss means of terminating or ameliorating the commercial restrictions imposed during the present war. Concerted action would cause less hard feeling than would the action of a single country. There would be time and opportunity for a full discussion of the restrictions, their effect, and the most appropriate means to insure their abrogation. An embargo by one neutral country might be nullified by exportation first to a neutral country and reshipment thence to the belligerent against which the embargo was laid; to be effective an embargo must be observed or at least recognized by all neutral countries. While the United States is commercially the most powerful country now at peace, its action would be strengthened if it had the moral and legal support of other nations affected by the restrictive measures.

Since the Allies have recently held at Paris a conference to discuss commercial policy after the return of peace, a conference of neutrals could scarcely be viewed as unfriendly by any of the belligerents. It might be well to extend the scope of the conference to include a discussion of appropriate means to insure the "open door" policy in Europe. The calling of a conference would not bind this country to any definite course until after the recommendations of the conference were ratified.

Against the conference two objections might be raised: (1) The delay before positive retaliatory measures could be enforced; (2) the close commercial and political relations between some of the neutral countries and some of the belligerents.

It must also be recognized that the call for a conference is likely to be criticised by opponents of the administration as an evidence of reliance upon moral suasion instead of force.

Some months' delay is inevitable. But if no measures so far authorized are considered feasible, delay at least until the next session of Congress is certain in any case, and the time could be well spent in a study of actual conditions by all the powers that would participate in the conference.

Some of the neutral powers might, on account of their close relations with the belligerents, hesitate to send representatives to the conference. Actual refusal to participate, however, seems unlikely, at least by those countries most affected by the existing regulations. It is more likely that the nations most closely affiliated with the belligerents would attend, in order to counsel moderation. Any conservative argument may well prove salutary to offset any unduly radical proposals that may be made.

Summary.

The general conclusions reached by this survey are:

(1) That immediate reprisals as authorized by recent laws afford no assurance of success, and threaten even the present basis of neutral commerce.

(2) That an international conference of neutral powers might be desirable to discuss the effect of trade restrictions imposed by belligerents and the best means of obtaining their relaxation, and also to consider the general question of international tariff relations after the conclusion of the war.

EXHIBIT NO. 2541

State Dept. Doc.
File no. 763.72/2931½

EMBASSY OF THE UNITED STATES OF AMERICA,
Constantinople, September 15, 1916.

Strictly personal and private.

Honorable ROBERT LANSING,
Secretary of State, Washington.

DEAR MR. SECRETARY: I arrived here September 11th and on my way spent several days in Berlin and had an opportunity of estimating the sentiments and feelings of people there because I had been to Berlin several times before and know a number of people; being familiar with the language and knowing the people they talk with me more freely than they would publicly.

First: Food. As you probably know there are two no meat days in Germany, and bread, meat, eggs, sugar, coffee, soap, et cetera, are distributed upon cards as are also articles of clothing. Coffee, sugar and milk are very difficult to obtain. The coffee is very poor; a substitute for it that is used consists of roasted bread and some kinds of beans. The absence of this is very much felt. There is no real milk to be had, only skimmed milk. The Government allows one egg per person per week, one-eight pound of meat per person per week; a similar allowance of skimmed milk; practically no sugar and a very small quantity of butter per person per week. Potatoes and bread such as it is are fairly plentiful and while filling, the people find them absolutely unsatisfying. The middle classes and the poor people talk of nothing but food and when they speak frankly as they did to me in their homes they said that they were always hungry. When talking publicly these same people will say how plentifully they are fed and indeed how much healthier they now are because they eat so much less meat. Statistics which were given to me by some of the bank and government officials apparently show that food supplies after the gathering of this harvest will be sufficient. It is claimed that this harvest is a very abundant one and more than thirty per cent. larger than the harvest of last year. I learned, however, from unofficial sources that while the harvest is in excess of that of last year, that the harvest of 1915 was far below the average and that this year's harvest is still below the average yield. You know what statistics are and anyhow the mass of the people do not believe that there is going to be any great improvement in food supplies; in fact, it is unofficially rumored that after October first there will be three no meat days and that there will be no milk at all except for children and invalids.

I was also told unofficially that there was a great increase in tuberculosis cases because of the lack of sufficient proper food. Although the open-air restaurants are full of people who at first sight seem to be not only well but happy, yet it needs but little close inspection to see the marked depression underlying all. Almost all of the faces are pale and denote bad or insufficient food and the great loss of bulk in the men and women is noticeable. This is claimed to be a sign of increased or improved health and it may be so.

These conditions to which I have thus briefly referred and which struck me forcibly because of the great contrast between the situation now as I saw it and when I was in Berlin a few years ago cannot be underestimated. From my interviews and conversations with numerous people it already appears to have sapped the courage and the nerve of the people. It seems that the rich, especially those with country estates, do not suffer as much as the medium class and the poor, as apparently, also, there is some favoritism.

Second. Peace. Along with the universal talk of food the subject of importance discussed is peace. When they talk frankly with you the people say they want peace at almost any price or on any terms. While they will not say it openly they seem to think the end is going to be very disastrous especially since the entry of Roumania into the war. There is of course the conflict between the military element and the business element. A leading business man, whose brother is a well known merchant and an American citizen of high standing in America, told me that the universal sentiment of the business men in Germany was for immediate peace on any terms which would preserve a part if not the whole of Germany's self-respect.

Third. Feeling about America. There is still a great dislike of America and Americans which is based on three grounds: First, supplying ammunition to the Allies; second, the stopping of the submarine warfare and three, permitting England to interfere with the neutral mails, et cetera. But despite all this they all look to President Wilson as the only commanding figure in the world who will be able to bring about peace. Mr. Gerard told me, and it is rumored and talked about among the people that because of the dissatisfaction with the present administration in Germany that the present Chancellor will be succeeded by von Tirpitz or Falkenhaeyn. Von Tirpitz is still demanding the resumption of submarine warfare and in case of his selection it would mean the resumption of that kind of warfare. One official said in my presence that one submarine saw forty one English or French ships carrying ammunition crossing the English channel and that because each one of these ships had hired a few Americans to travel on them for safety's sake, the submarines did not dare to interfere. Mr. Gerard told me that he believed that Germany was so disappointed about the war and conditions that they would replace von Bethman-Hollweg by von Tirpitz or some one like him and begin a new submarine warfare. But two or three business men told me, with strict injunctions as to secrecy, that this was all bluff and that the business men and general public would not submit to any such proposition; that they were fast being ruined and did not propose to allow the military to ruin them entirely as they had substantially ruined the country itself. The newspapers unfriendly to the President contained statements when I was in Berlin unwillingly admitting that his election now seemed certain because of his magnificent work in settling the railroad strike and because of his other works of public importance.

* * * * * * *

Very sincerely yours,

[s] Abram I. Elkus.

Exhibit No. 2542

State Dept. Doc.
Confidential file 763.72/2992.

Embassy of the United States of America,
Berlin, *October 16, 1916.*

No. 4322
Strictly confidential.

The Honorable The Secretary of State,
Washington.

Sir: Supplementary to the telegrams bearing on the political situation in Germany, which I am regularly transmitting to Washington in accordance with the directions contained in the Department's telegram no. 3456 of October 5, 1916, I have the honor to communicate to the Department below a résumé of the political developments which have occurred in this country during the last three weeks, with particular reference to the question of a possible resumption of indiscriminate submarine warfare on merchant vessels in violation of neutral rights on the high seas.

The submarine question had appeared to be in abeyance and matters between the United States and Germany on a temporarily quiet footing when, on September 29th, came the unexpected anti-American outburst in the press, based on the report of the death of the American aviator Rockwell in the service of France. The Foreign Office had for a long time been able to suppress all articles in the press tending to inflame public opinion against the United States and it appears that this outburst was forced past the Foreign Office censor by the military representative at the daily press conference, who gave out the material regarding Rockwell and the French corps of American aviators and permitted it to be published before the Foreign Office could interfere. As full advantage was taken of the item as a basis for scathing comment on the neutrality of the United States, it seems probable that the whole incident was a carefully timed political move on the part of the adversaries of the Chancellor in order to stir up public opinion against the United States and thus to weaken the Chancellor in dealing with the submarine issue in the coming deliberations of the Reichstag. There is no doubt that the Chancellor and the Foreign Office were greatly perturbed over the incident and that they took immediate steps to suppress all further comment in the press. I am aware that the Chancellor referred the matter to the Emperor himself.

At about the same time we received information from various sources that the Admiralty Staff were hastening their preparations for a resumption of the indiscriminate submarine warfare, as they hoped and apparently expected that the political situation would develop in a way to permit them to carry out their plans in this direction. This information, together with reports of a pessimistic nature from many sources regarding the increasing strength of the Chancellor's opponents in the Reichstag and of the champions of the reckless submarine warfare, led me to send my confidential telegram no. 4412 of October 1st. On September 29th and 30th well informed persons here were of the opinion that a grave political crisis was impending.

The situation did not however develop as was expected by the Admiralty. After the Chancellor's opening speech in the Reichstag on September 28th, twelve days were spent by the Budget Committee of the Reichstag in secret session for the purpose of considering foreign affairs and it was during these sessions that the Chancellor succeeded in coming at least to a temporary agreement with the leaders of the various political parties. On such information as I was able to obtain regarding the general trend of these deliberations I based my confidential telegrams to the Department Nos. 4417, of October 2nd, 4433 of October 5th, 4436 of October 6th, 4442 of October 7th, 4439 of October 7th, 4450 of October 9th, and 4478 of October 14th.

The meetings of this committee were strictly secret, members of the Reichstag not belonging to the committee being excluded. The principal witnesses before the committee were the Chancellor (von Bethmann Hollweg), the Secretary of State for the Navy von Capelle) and the Secretary of State for Foreign Affairs (von Jagow). The principal topic of discussion was the submarine issue and whether to take up the submarine warfare in its extreme form, thereby involving neutrals in the war, or not. The opponents of such action, I may add, are the Chancellor, supported by the Emperor, Helfferich (Minister of the Interior), von Hindenburg (Chief of the General Staff), the Foreign Office and what appears to be a majority in the Reichstag, including the Socialists, the People's progressive Party, a few of the National Liberals, and most of the Center Party. Its advocates are the Navy in its entirety, including of course von Tirpitz, the former Secretary of State for the Navy, a probably large percentage of the Army, the Conservatives, including the Free Conservatives, and most of the National Liberal Party, in the Reichstag, and above all the majority of public opinion, which has been carefully educated by the press to regard the indiscriminate submarine warfare as a sure means of causing England's defeat.

At certain phases of the discussions the leaders of the various parties in the Reichstag were called before the Budget Committee and allowed to state the views of their respective parties in regard to the matter.

One of the strongest speeches in support of the Chancellor appears to have been made by Helfferich, who elaborated the importance of avoiding a break with the United States, first on account of the necessity of retaining American financial cooperation after the war, second on account of the effective closing of the frontiers of the neutral countries contiguous to Germany which would result from the combined pressure of England and the United States thus putting an end to the importation of supplies which still enter Germany in certain quantities across those frontiers. Helfferich's speech, in fact, may be regarded as the turning point of the political crisis, as indicated in my telegram No. 4417 of October 2nd.

During these secret discussions it was announced in the press that a confidential memorandum written by the Admiralty Staff and submitted to the Chancellor on the subject of the economic effects of an indiscriminate submarine warfare on England's commerce had been distributed surreptitiously to the political leaders, in order to influence them in demanding by resolution in the Reichstag that the submarine war be adopted. An official statement was later published to the effect that this memorandum was simply a work on England's political economy as affected by submarine warfare, sent by the Admiralty to the Chancellor in February last marked "confidential, not for publication" and described as a purely economic memorandum prepared for the use of the Admiralty.

It is of course not generally known what arguments were used by the Chancellor in the secret sessions of the Budget Committee to keep them from voting to open the discussion in the REICHSTAG with a view to calling on the Government for a renewal of the extreme form of submarine warfare. It is however rumored that he was able to hold out some hope that peace might be arranged if Germany did not go forward with this policy at the present time and that it was on this basis that the party leaders agreed to let the matter drop for the present moment.

At any rate the Committee voted 24 to 4 against a general discussion of the submarine issue in the Reichstag and, when the open session came, what had promised to be a debate of great acrimony, with the possible result of a vote of lack of confidence in the Chancellor, was reduced to a few mild speeches by the leaders of the Conservative and of the Socialist Labor parties, that is the extreme right and the extreme left, who had refused to accede to the resolution of the Budget Committee and spoke on the submarine issue, but without effect. Westarp, the leader of the Conservatives, said that while his party regarded a resumption of the indiscriminate submarine warfare as absolutely necessary, he would refrain, in the public interest from stating their reasons therefor. The general sentiment of the Reichstag was that the decision should be left in the hands of the highest military authorities, namely the Emperor and von Hindenburg.

It is now generally felt that confidence in the Government has been largely restored as a result of the proceedings in the Reichstag and that, as I predicted in my telegram No. 4439 of October 7th, the political atmosphere has for the moment been cleared.

The Navy as a whole is convinced that the submarine warfare must be taken up again and pushed to its extreme form in order to save the situation, and it is reported that a round-robin letter, signed by all the officers of the Navy, has been addressed to the Emperor calling upon him to adopt this method of warfare in order that the war may be won. Admiral Scheer, who, since the battle off the Skagerrak, has been the dominating personality on the active list of the Navy, supports the "rucksichtslos" war, as does von Tirpitz, who in his retirement is said to have more influence on the minds of the naval officers than anybody else in Germany. Admiral Scheer is reported to have twice petitioned the Emperor for the taking up of the active submarine warfare against commerce in its extreme form. In his second letter on this subject I am reliably informed that he wrote the following:

"It is true that if operations to be inaugurated take a favorable turn, the enemy may be considerably injured, yet there cannot be the slightest doubt that even the most fortunate result of a high-sea battle cannot force England in this war to peace; the disadvantages of our military-geographic situation as compared with that of the island Power and the great material superiority of the enemy will not allow us to overcome the blockade directed against us or to overcome England itself; even if the U-boats are all available for military purposes. A victorious ending within a foreseen time can only be achieved by destroying the English economic life, i. e. by using the German U-boat against the English commerce.

"I am constrained according to my conviction and duty to counsel your Majesty against employing any weaker method, not only because it does not correspond to the character of the weapon and the risk to the U-boats, which is in no proportion to the gain to be achieved, but because in spite of the great conscientiousness on the part of the captains of the U-boats it is not possible for them to avoid incidents in English waters, in which waters American interests are active, incidents which are liable to humiliate us and would force us to recede, if we cannot hold through to the fullest extent . . ."

It is as yet impossible to predict what will be the result of this letter and the petition of the officers, but they should be given careful consideration from the point of view of the effect which they may have on the Emperor and in connection with my various telegraphic reports indicating that the Chancellor's present strength depends largely upon the support which he is receiving from the Emperor in his attitude towards the submarine issue.

Although it is evident that the Navy would gladly break loose from the restrictions imposed upon it by the Government, it nevertheless appears, from all available sources of information here, that the U-53, which has been operating off the Atlantic coast of the United States, has so far adhered to the instructions of the Government based on the assurances given us last spring that the submarine warfare would be conducted in accordance with international law and the rights of neutrals on the high seas. I am informed that Commander Rose, of the U-53, is regarded as one of the most reliable officers in the German Navy and that no anxiety is felt as to his exceeding his instructions in any respect. Whether his operations in American waters have already run counter to the assurances given us by the German Government, the Embassy is not as yet in a position to know. The German press has simply announced that nine merchant vessels have been sunk off the coast of the United States.

A statement which appeared in the *Nordeutsche Allgemeine Zeitung*, the semi-official organ of the German Government, on October 12th, while not labelled official, has all the earmarks of emanating from the Admiralty Staff. It is as follows:

"In the press of our enemies different statements and assertions have been made with regard to the German submarine war on the coast of the United States which must be contradicted.

"The English radio-telegraphic service of Poldhu reported under date of October 10th that "U 53" had "torpedoed six ships and in several cases sunk them."

"We are informed from authoritative sources that the trade war off the coast of the United States is carried on in accordance with the German Prize Rules which provide that a merchant ship may be stopped and searched, and, after the crew and passengers have been saved, the ships may under certain conditions be sunk. These conditions are, for instance, if the steamer belongs to an enemy, or if it is a neutral steamer carrying contraband of war, the military situation being such as to exclude the possibility of bringing the ship in as a prize. In no case are merchant ships sunk by a torpedo shot without warning.

"Reuter further reports from Washington that the American authorities fear the coming of complicated questions of neutrality if submarines operate so close to the American coast that it resembles a blockade.

"To this end it must be replied that the German naval forces have the right to carry on the cruiser war anywhere upon the open sea, if the waters of neutral sovereignty are scrupulously respected. This is not a question of a blockade as only enemy ships or neutral ships with contraband of war on board are held up, whereas the declaration of a blockade would include the seizure of all ships steering towards the blockaded coast or leaving it, irrespective of flag or cargo.

"The question of the American "Journal of Commerce" 'Is our coast to be the base for German submarines?' is also superfluous in view of the fact that when the "U-53" ran in to Newport she did not make use of her right as a warship to take on fuel supply or provisions. That secret supply stations for German submarines could be established on the coast of the United States, no American citizen with sound sense could believe.

"In strong contrast to these complaints stands the fact that since the beginning of the war English cruisers have been standing guard before American ports, New York for instance, which approach the coast so closely that they may be seen with the naked eye from the roofs of high buildings."

As far as can be made out, then, there was about ten days ago a belief in the Admiralty Staff that the political situation was such that the resumption of the "rucksichtslos" submarine warfare against commerce would be permitted them. The political leaders, however, failed to carry this point against the opposition of the Chancellor and, in fact, receded for the present from their position and gave the Chancellor support in his milder policy. The Navy, therefore, postponed any plans it may have had for taking up an extreme form of submarine warfare and are waiting until the Government is forced to their views, which are that the only way of winning the war is to strike with all their force against the English economic life by way of an extreme form of submarine warfare, i. e. by sinking everything that approaches the English and French coasts.

Whether the issue has been laid in abeyance indefinitely or whether it has been postponed merely for a certain period, say until after the Presidential elections in the United States, or longer, it is as yet impossible to ascertain. Only the Government and the political leaders who took part in the deliberations in the secret sessions of the Budget Committee of the Reichstag know. I wish, however, to repeat what I have endeavored to indicate in my various confidential telegrams to the Department, that while the political outlook is *for the present moment* reassuring, there is no permanent security to be looked for in the situation, in view of the attitude of the Navy, the Conservative Party and its allies in the Reichstag, and the majority of public opinion, and that our Government should therefore be fully prepared for an eventual resumption of the indiscriminate submarine warfare against commerce in violation of the rights of neutrals on the high-seas.

I may add that I have kept the Department informed of the trend of public opinion as expressed in the various party organs of the press in my telegrams Nos. 4413, 4416, 4420, 4424, 4430, 4434, 4443, 4449, 4453, 4459, 4466, 4474, 4477, and 4480, of October 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, and 16 respectively.

The proceedings in the two important open sittings of the Reichstag were reported in my telegrams Nos. 4401 and 4471, of September 28 and October 12, respectively.

I have the honor to be, Sir,
Your obedient servant,

[s] I. C. GERARD,
Chargé d'Affaires ad Interim

("Exhibit No. 2543" appears in text on p. 8502)

("Exhibit No. 2544" appears in text on p. 8503)

("Exhibit No. 2545" appears in text on p. 8504)

("Exhibit No. 2546" appears in text on p. 8507)

EXHIBIT No. 2547

Foreign Relations, 1917, Supp. I, p. 6
File No. 763.72119/370½

The Ambassador in France (Sharp) to the Secretary of State

[Telegram]

PARIS, *January 10, 1917, 8 p. m.*
[*Received January 11, 8.20 a. m.*]

1806. My 1805. Translation of French note as follows:

The Allied Governments have received the note which was delivered to them in the name of the Government of the United States on the 19th of December, 1916. They have studied it with the care imposed upon them both by the exact realization which they have of the gravity of the hour and by the sincere friendship which attaches them to the American people.

In general way they wish to declare that they pay tribute to the elevation of the sentiment with which the American note is inspired and that they associate themselves with all their hopes with the project for the creation of a league of nations to insure peace and justice throughout the world. They recognize all the advantages for the cause of humanity and civilization, which the institution of international agreements, destined to avoid violent conflicts between nations, would present; agreements which must imply the sanctions necessary to insure their execution and thus to prevent an apparent security from only facilitating new aggressions. But a discussion of future arrangements destined to insure an enduring peace presupposes a satisfactory settlement of the actual conflict; the Allies have as profound a desire as the Government of the United States to terminate as soon as possible a war for which the Central Empires are responsible and which inflicts such cruel sufferings upon humanity. But they believe that it is impossible at the present moment to attain a peace which will assure them reparation, restitution, and such guaranties to which they are entitled by the aggression for which the responsibility rests with the Central Powers and of which the principle itself tended to ruin the security of Europe; a peace which would on the other hand permit the establishment of the future of European nations on a solid basis. The Allied nations are conscious that they are not fighting for selfish interests, but above all to safeguard the independence of peoples, of right, and of humanity.

The Allies are fully aware of the losses and suffering which the war causes to neutrals as well as to belligerents and they deplore them; but they do not hold themselves responsible for them, having in no way either willed or provoked this war, and they strive to reduce these damages in the measure compatible with the inexorable exigencies of their defense against the violence and the wiles of the enemy.

It is with satisfaction therefore that they take note of the declaration that the American communication is in no wise associated in its origin with that of the Central Powers transmitted on the 18th of December by the Government of the United States. They did not doubt moreover the resolution of that Government to avoid even the appearance of a support, even moral, of the authors responsible for the war.

The Allied Governments believe that they must protest in the most friendly but in the most specific manner against the assimilation established in the American note between the two groups of belligerents; this assimilation, based upon public declarations by the Central powers, is in direct opposition to the evidence, both as regards responsibility for the past and as concerns guaranties for the future; President Wilson in mentioning it certainly had no intention of associating himself with it.

If there is an historical fact established at the present date, it is the wilful aggression of Germany and Austria-Hungary to insure their hegemony over Europe and their economic domination over the world. Germany proved by her declaration of war, by the immediate violation of Belgium and Luxemburg, and by her manner of conducting the war, her simulating contempt for all principles of humanity and all respect for small states; as the conflict developed the attitude of the Central powers and their allies has been a continual defiance of humanity and civilization. Is it necessary to recall the horrors which accompanied the invasion of Belgium and of Serbia, the atrocious regime imposed upon the invaded countries, the massacre of hundreds of thousands of inoffensive Armenians, the barbarities perpetrated against the populations of Syria, the raids of Zeppelins on open towns, the destruction by submarines of passenger steamers and of merchantmen even under neutral flags, the cruel treatment inflicted upon prisoners of war, the juridical murders of Miss Cavell, of Captain Fryatt, the deportation and the reduction to slavery of civil populations, etc.? The execution of such a series of crimes perpetrated without any regard for universal reprobation fully explains to President Wilson the protest of the Allies.

They consider that the note which they sent to the United States in reply to the German note will be a response to the questions put by the American Government, and according to the exact words of the latter, constitute "a public declaration as to the conditions upon which the war could be terminated."

President Wilson desires more: he desires that the belligerent powers openly affirm the objects which they seek by continuing the war; the Allies experience no difficulty in replying to this request. Their objects in the war are well known; they have been formulated on many occasions by the chiefs of their divers governments. Their objects in the war will not be made known in detail with all the equitable compensations and indemnities for damages suffered until the hour of negotiations. But the civilized world knows that they imply in all necessity and in the first instance the restoration of Belgium, of Serbia, and of Montenegro, and the indemnities which are due them; the evacuation of the invaded territories of France, of Russia, and of Roumania with just reparation; the reorganization of Europe, guaranteed by a stable regime and founded as much upon respect of nationalities and full security and liberty, economic development, which all nations, great or small, possess, as upon territorial conventions and international agreements suitable to guarantee territorial and maritime frontiers against unjustified attacks; the restitution of provinces or territories wrested in the past from the Allies by force or against the will of their populations, the liberation of Italians, of Slavs, of Roumanians and of Czecho-Slovaks from foreign domination; the enfranchisement of populations subject to the bloody tyranny of the Turks; the expulsion from Europe of the Ottoman Empire decidedly (foreign) to western civilization. The intentions of His Majesty the Emperor of Russia regarding Poland have been clearly indicated in the proclamation which he has just addressed to his armies. It goes without saying that if the Allies wish to liberate Europe from the brutal covetousness of Prussian militarism, it never has been their design, as has been alleged, to encompass the extermination of the German peoples and their political disappearance. That which they desire above all is to insure a peace upon the principles of liberty and justice, upon the inviolable fidelity to international obligation with which the Government of the United States has never ceased to be inspired.

United in the pursuits of this supreme object the Allies are determined, individually and collectively, to act with all their power and to consent to all sacrifices to bring to a victorious close a conflict upon which they are convinced not only their own safety and prosperity depend but also the future of civilization itself.

Copy of Belgian note as follows:

The Government of the King, which has associated itself with the answer handed by the President of the French Council to the American Ambassador on behalf of all, is particularly desirous of paying tribute to the sentiment of humanity which prompted the President of the United States to send his note to the belligerent powers and it highly esteems the friendship expressed for Belgium through his kindly intermediation. It desires as much as Mr. Woodrow Wilson to see the present war ended as early as possible.

But the President seems to believe that the statesmen of the two opposing camps pursue the same objects of war. The example of Belgium unfortunately demonstrates that this is in nowise the fact. Belgium has never, like the Central powers, aimed at conquests. The barbarous fashion in which the German Government has treated, and is still treating, the Belgian nation, does not permit the supposition that Germany will preoccupy herself with guaranteeing in the future the rights of the weak nations which she has not ceased to trample under foot since the war, let loose by her, began to desolate Europe. On the other hand, the Government of the King has noted with pleasure and with confidence the assurances that the United States is impatient to cooperate in the measures which will be taken after the conclusion of peace, to protect and guarantee the small nations against violence and oppression.

Previous to the German ultimatum, Belgium only aspired to live upon good terms with all her neighbors; she practiced with scrupulous loyalty towards each one of them the duties imposed by her neutrality. In the same manner she has been rewarded by Germany for the confidence she placed in her, through which, from one day to the other, without any plausible reason, her neutrality was violated; and the Chancellor of the Empire when announcing to the Reichstag this violation of right and of treaties, was obliged to recognize the iniquity of such an act and predetermine that it would be repaired. But the Germans, after the occupation of Belgian territory, have displayed no better observance of the rules of international law or the stipulations of the Hague convention. They have, by taxation, as heavy as it is arbitrary, drained the resources of the country; they have intentionally ruined its industries, destroyed whole cities; put to death and imprisoned a considerable number of inhabitants. Even now, while they are loudly proclaiming their desire to put an end to the horrors of war, they increase the rigors of the occupation by deporting into servitude Belgian workers by the thousands.

If there is a country which has the right to say that it has taken up arms to defend its existence, it is assuredly Belgium. Compelled to fight or to submit to shame, she passionately desires that an end be brought to the unprecedented sufferings of her population. But she could only accept a peace which would assure her, as well as equitable reparation, security and guaranties for the future.

The American people, since the beginning of the war, has manifested for the oppressed Belgian nation its most ardent sympathy. It is an American committee, the Commission for Relief in Belgium, which, in close union with the Government of the King and the national committee, displays an untiring devotion and marvelous activity in revictualing Belgium. The Government of the King is happy to avail itself of this opportunity to express its profound gratitude to the Commission for Relief as well as to the generous Americans eager to relieve the misery of the Belgian population. Finally, nowhere more than in the United States have the abductions and deportations of Belgian civilians provoked such a spontaneous movement of protestation and indignant reproof.

These facts, entirely to the honor of the American nation, allow the Government of the King to entertain the legitimate hope that at the time of the definitive settlement of this long war, the voice of the Entente powers will find in the United States a unanimous echo to claim in favor of the Belgian nation, innocent victim of German ambition and covetousness, the rank and the place which its irreproachable past, the valor of its soldiers, its fidelity to honor, and its remarkable faculties for work assign to it among the civilized nations.

SHARP.

EXHIBIT No. 2548

Foreign Relations 1917, Supp. 1, p. 103
File 763.72/3170

[Telegram received. Special Green]

BERLIN VIA COPENHAGEN
Dated January 31, 1917.
Rec'd February 1, 7:55 P. M.

SECRETARY OF STATE,
Washington.

4961. January 31, one p. m. Confidential. Giving more details of my conversation with Zimmermann last night.

He said that he and I must work hard now to keep peace between Germany and America. I said yes but it was rather late and apparently a sudden decision. He said yes, that it had been much discussed in the last two weeks and that that was the reason for his constant trips to Great Headquarters but that now even the Chancellor had come around; that the military and naval people had forced this and said that America could do nothing; that the Foreign Office had warned them and done what it could and was on record against this step. But he said it was their last chance as Germany could not hold out a year on the food question but that what finally decided them was the nasty answer to Wilson of the Allies showing that it is impossible to make peace. That he realized that it was a very serious step and would probably bring the whole world into the war but that Germany had this weapon and must use it no matter what the consequences were.

End Conversation.

There is no doubt but that Germany believes that Americans are a fat, rich race without sense of honor and ready to stand for anything in order to keep out of war and Americans in Germany have encouraged them in this belief. The Germans think and newspapers have published that the President's peace moves are inspired by fear only. Please do not give out my conversation with Zimmermann which was confidential. I think the reasons for the hasty decision, First, the desire to torpedo ships carrying grain from Argentina; Second, food situation here; Third, threatened great Allied offensive; Fourth, public demanding use of submarine weapon and contempt and hate for America. I expect note tonight.

GERARD.

EXHIBIT No. 2549

[Unpublished]

f. w. 763.72/3170–½

DEPARTMENT OF STATE,
OFFICE OF THE SECRETARY.

MY DEAR MR. PRESIDENT: I have just received this letter of Jany. 22, 1917, from Ambassador Page at Rome and which he desired you to see.

Faithfully yours,

ROBERT LANSING.

2/14/17

(This note written in ink.)

State Dept. Doc.
763.72/3170–½

AMERICAN EMBASSY,
Rome, January 22, 1917.

(Private and confidential)

(In ink: File DAS–HS 2/17/34)

The Honorable ROBERT LANSING,
Secretary of State, Washington.

MY DEAR MR. SECRETARY: Night before last I was called on by a gentleman who had received from the Vatican a very interesting memorandum in regard to the views of the latter on the Allies' note to the President in reply to his note of December 18th, although more specifically it related to Mr. Balfour's note of explanation and endorsement of the Allies' note. The substance of this memorandum I sent you in a confidential telegram 3149 yesterday morning and I am writing you this so that you may show it to the President. I gave the substance of the memorandum in my telegram, but there were one or two interesting things mentioned by the gentleman in question which were not in the written memorandum. This memorandum was first written out and given him, but the next morning he was recalled and was given permission to copy the memorandum, but had to leave the original, as indeed he had been told he must do, when it was first handed to him. He was told that Poincare when Minister in 1912 promised Russia, in consideration of her support in France, that she should have Constantinople and the Straits, and that after Poincare was elected President, he confirmed this promise in writing. Also, that when in the autumn of 1914 the conference of the Allies took place in London at the time, I think it was, when England secured the promise from the Allies that no one would make a separate peace but that all would stand together to the end, Russia presented Poincare's written engagement,—that she should have Constantinople and the Straits,—and England had to yield to secure her engagement not to make a separate peace.

I have read in the press in the last few days that the Vatican got the Spanish Ambassador in Washington to call on the President and assure him of the Vatican's entire sympathy with his recent move to ascertain the terms of the Allies in the hope of leading eventually to peace, yet at the same time the press here has been commenting constantly on the Pope's entire abstention from any reference to the President's step in the allocation which the former made here the day before Christmas and his failure in such a discourse to refer to the President has been generally accepted as evidence that he did not approve of the President's step. On the side many have drawn the inference therefrom that the Pope is working with Spain to be, if possible, selected as the arbiter when the peace conference shall assemble, but in any event to be recognized and have a seat in that conference. I have given you the information which has come to me, not because I do not appreciate the futility of the curiously antiquated sort of intriguing diplomacy which it exemplifies, but because I think it shows very clearly that the Vatican is working with all its power for Austria. The contention set forth in the memorandum which came to me and which I telegraphed you is undoubtedly true; the handing over to Russia of all the provinces therein listed with the cession of Constantinople and the Dardanelles will undoubtedly give her tremendous, if not overwhelming, power in Europe and make her very strong in the Orient. The whole tone of this memorandum, however, is against England and, incidentally, her allies, who accede to this program, it was said, indeed, in the memorandum that England does not dare to present the true program which she has in mind to Europe and therefore has violently protested against the cruelty of the Turks against the Armenians, et cetera.

The gentleman told me that the Vatican keeps, he believes, absolutely informed of every move that is made in the whole field of present diplomacy and he believes that the Vatican knows just what terms Germany and Austria would be willing to make peace on. I am sure that the Vatican used certain influences during the last electoral campaign in America, on account of the President's attitude with regard to Mexico, to withdraw from the President the support of representatives of the church in America.

The newspapers here are filled all the time with stories of the troubled conditions existing in Germany and Austria. Thoughtful men, however, who are not swayed by prejudice think that Germany can hardly be starved out, but the very general impression is that Austria is in a very bad way indeed. I myself, remembering the days of my childhood in the South, am skeptical as to the people's being forced to yield because of the scarcity of even the necessaries of life.

I have written the foregoing to you, not only for yourself, but thinking this the most confidential way to have it reach the President.

Believe me, my dear Mr. Secretary, always,

Faithfully yours,

[sgd] THOS. NELSON PAGE

EXHIBIT No. 2550

[Unpublished]

State Dept. Doc.
F. W. 763.72/3171—½

THE WHITE HOUSE,
Washington, February 14, 1917.

The SECRETARY OF STATE

MY DEAR MR. SECRETARY: Thank you for letting me see the enclosed letter to you from Nelson Page. I am sending you herewith a letter 3171-1/2 from him to me which is intended as a supplement.

Faithfully yours,

[sgd] W. W.

File DAS-(HS)
State Dept. Doc.
2/17/34

763.72/3171½

AMERICAN EMBASSY
Rome, January 22, 1917.

The PRESIDENT,
The White House, Washington

MY DEAR MR. PRESIDENT: I have written a letter to the Secretary Mr. Lansing by this pouch which it may interest you to see and I will not repeat anything that I said in that letter.

The unknown quantity in the present problem, here at least, seems to be Russia. No one here appears to know just what is going on there. The Russians themselves say that Russia is getting ready for a great move and that she will be able to save Roumania; that the change will take place very soon, et cetera. They also declare that Russia is absolutely determined to carry the war through to complete victory. I am sensible myself that there at least seems to be, not only considerable ignorance here among the representatives of the other Allies as to what Russia is doing or can do; but also some anxiety on this point. According to what we read and hear here, the Russian cabinet appears to be in a constant state of change, or "crisis", as they say here. Ministers succeed Ministers with startling rapidity, without any one here knowing precisely why. One thing, however, appears reasonably certain, that Russia has recently been on the verge of making some sort of separate accommodation, if not actually a separate peace, and the whole matter of the Dardanelles and Constantinople has come out in consequence of this fact. As my telegram of yesterday stated, Russia seems to be in a fair way of getting from the other Allies a hand sufficiently free to give her a very preponderant position as regards, not only Eastern and Southeastern Europe; but even the Orient itself. I draw from this the conclusion that it was necessary to make large concessions to Russia, either to secure her continued co-operation or to make it appear worth while to her to face the conditions in which she finds herself and to put forth extraordinary efforts.

There seems a general impression here that Germany may be in a bad way, economically, but that Austria is certainly in an exceedingly bad way. I incline to the opinion that the Memorandum to which I have referred in my letter to Mr. Lansing, was brought to my attention because of the untoward condition in which Austria-Hungary is at present and the apprehension that Russia may become absolutely preponderant in Southeastern Europe.

As you will have heard, the recent Conference here of the Prime Ministers of the Allies, excepting that of Russia,—with their leading military representatives, besides deciding on an answer to your Note, decided also to create a mobile army the size of which is set at anywhere from three-quarters of a million to a million men, composed of forces of all the Allies to be used wherever occasion demands. In pursuance of this, considerable numbers of French troops have been coming into Italy,—whether for use in the Balkans or for use in Italy along her northern battle front, I have not so far been able to ascertain. Some say one thing, some another. It was, however, in consequence of this proposed mobile army, no less perhaps than in consequence of the alleged increase of German Austrian forces along the Swiss northern and western frontier, that Switzerland the other day decided to mobilize the greater part of her troops. The press here, as in the other Allied countries, makes the claim that this mobilization is entirely against Germany and Austria, while I see the latter say it is against the Allies. I think it may be said with certainty that it is not against the Allies solely that Switzerland has mobilized. I know that the Swiss Government made representations to the Allies that the step was not taken with any hostile intent against them. It was taken to protect Switzerland's neutrality from aggression on either side. This is the real fact and I understand that Switzerland now feels pretty well assured that neither side in the great combat will undertake to do that which will fling the whole weight of her force, which although small by modern reckoning, is pretty compact,—against them.

I learn from the best authority here that Switzerland at present, although very short of supplies, has sufficient for her immediate needs. A short time ago there was a great discussion among the Allies as to whether Switzerland should be permitted to export anything to Germany, which she imported, and that England was for excluding her right to export anything whatever. She was obliged, however, to yield to the extent of permitting the exportation of what is called here "agrume", that is, fruits such as oranges, lemons, citron, etc. and possibly certain vegetables such as onions, inasmuch as Sicily and Southern Italy, where these fruits are the principal staple of production and export, absolutely demanded it, and Italy herself stated that it was necessary to make this concession.

Switzerland, as you know, has been a great producer of condensed milk, cheese, butter, etc. and I learn that there is great apprehension lest, owing to the inability to get a continuance of imports of winter feed for the cattle, they will have to be killed, in sufficient numbers at least to injure seriously this source of her supply.

I have been much troubled recently to find how far Italy has appeared to think it necessary to yield to what I cannot but think is a sort of dictatorship on the part of England with regard to certain very important necessaries of life here for which Italy is entirely dependent on importations, such as coal, grain, steel, etc. There is very apparent propaganda in progress and not a great deal that is American escapes the interference on the part of these British propagandists in one way or another, the general method being that which dates back to the earliest days of Rome, of whispers that these American representatives have Austrian connections and are really working not in Italy's interest.

I took the matter up informally with the Minister of Foreign Affairs. He, however, gave me to understand that, with regard to the particular articles as to which I approached him,—coal, grain, steel,—Italy had no choice. It was a matter of necessity for her to fix prices in order to secure a guarantee of the quantities of these staples necessary for her existence. My contention with him was that America could not compete if the prices were that at which they were fixed; but that if she were left to take her chance of finding a market, she would bring coal, etc. to Italy. The Minister said that this was a war measure, and was necessary for the reasons he gave me, as otherwise the war could not continue; but he said it would not be continued after the war.

The text of your address of this afternoon before the Senate arrived here in sufficient time to have it put in proper shape to deliver, according to instructions, this evening at the hour of its delivery in Washington, and I have made an appointment with the Minister of Foreign Affairs for that purpose. At the same time I am having today careful translation made from English into Italian, so that if necessary I may send it with the English text for publication in the press here.

Your Note of the 18th of December suffered very much I think from the somewhat inexact translation made here at the Foreign Office, and I attribute a part of the virulence of attack made on it here in the press, to this translation.

I do not, however, mean to attribute too large a part of this attack to this cause, for I feel sure that the cue came from the outside and I believe that it was given because there was a serious apprehension that the suggestion of Peace might weaken the power of the Allied countries.

The position that was allowed to be taken that you had declared the two sides to be of similar merit was so manifestly without foundation that I feel very well assured that no representative of any Government who read your note, really believed what the press declared.

I think it quite possible that at the very beginning some of them suspected that Germany had asked you to intervene in some way; but certainly they were soon disillusionized and I do not think that this view was ever entertained by Baron Bonnino. A certain amount of mischief has resulted from the efforts of certain American busy-bodies who have undertaken a sort of propaganda to create in the minds of representatives of the Allies as well as in the public mind, the impression that you and your administration speak rather for a fraction than for the whole of the American people. Even the complete reversal of their prophesy that you would not be re-elected, has not entirely failed to stop them and there is so much ignorance here as to America that their propaganda is at times really mischievous.

Immediately after your Note came out, I heard from one of the Ministeries here a reference to the impression which had been made by the impertinent activities of the man who in Paris is the sort of head and front of this propaganda and more recently the press has occasionally had a reference to the opinion of Americans of standing who are critical of the position which you have set forth in your note.

I cannot close this without expressing to you the enormous interest which your address before the Senate set for this afternoon has for me. It is a very high note which you have struck. I do not see how it could be higher. I shall await with breathless interest its effect. I do not mean its immediate reception; but its subsequent influence on the present world conflict and its consequences. Whether the world is ready for it or not remains to be seen. In any event, it is nearer to a declaration of the principle of right, based on the highest ethical foundation, than anything that I remember in any State paper, of which I have knowledge.

Believe me, my dear Mr. President, always with the greatest regard and the sincerest friendship, yours,

[sgd.] THOS. NELSON PAGE.

EXHIBIT No. 2551

[Unpublished]

State. Dept. Doc.
763–72/3172½
(In ink: File DAS (HS) 9/28/34)

(Personal and confidential)

PETROGRAD, *Jan. 29/Feb. 11, 1917.*

Honorable ROBERT LANSING,
Secretary of State, Washington, D. C.

DEAR MR. SECRETARY: Yours of December 28th came to hand January 14/27 and I was pleased to hear that your health is not bad and that you do not contemplate resigning. I was also appreciative of your statement that you read my personal letters, and that they are not tiresome, but give you an insight into the local situation which is interesting if not valuable.

I don't know what time you will receive this letter, but it ought to get to Washington not later than April 1st, as the pouch containing it will be sent by Lydig, who will leave via Vladivostock next Tuesday evening on the Siberian Express and who tells me he expects to arrive in Washington about the last of March. It is possible I may make him a courier only to Vladivostock or to Peking, but that will depend upon what I determine is the most expeditious plan.

Since writing you last there have been several very important changes. My despatches advised of the delivery of the general peace note and also of the note of the President concerning peace; I also wrote a despatch giving the details of the delivery to the Foreign Office of the address of the President to the Senate, but don't know whether you have received the pouch in which it was sent.

The peace note of the President was not received by the Allies with unmixed approval. The criticisms were mainly based upon the statement or assertion that the statesmen of both sides of this contest claimed to be fighting for the same objects—the critics of the note were inclined to charge that such was the President's view also. In the address to the Senate, the "peace without victory" expression is what aroused opposition, which in some quarters was quite bitter. The peace note and the address to the Senate however were so completely overshadowed by the severing of our diplomatic relations with Germany that they are not discussed nearly so much if at all. I cabled you my opinion concerning the address to the Senate and either cabled the President direct or through you my feeling concerning the stand taken with Germany. I have not yet seen a word of the address of the President to the Congress on February 3rd, but have been much pleased to learn through the indefinite and unsatisfactory telegrams in the Russian papers that the stand taken has met with the enthusiastic approval and support of the American people. One telegram says that the Senate approved by a vote of 78 to 5; I have never seen that the House has taken any definite action.

I gave a statement to the newspapers concerning the breaking off of diplomatic relations with Germany immediately after the receipt of cable so informing me. It was necessary to do that in order to give the Russian people a clear understanding of what the United States had done, as otherwise they would have thought we had declared war, and if so there would have been a demonstration in front of the Embassy which I should have been compelled to address. I talked to great length to the representatives of the press all during Sunday Feb. 4th, and after the receipt of the cables sent for my information and giving the instructions that had been forwarded to our missions in neutral countries, I was compelled to submit to second talks of half an hour or more with each representative who had seen me before the receipt of the cable and to whom I had been compelled to say that I could make no statement whatever as I had received no official information that we had severed diplomatic relations with Germany. Each newspaper man insisted on the authenticity of the news and it was very difficult to explain why I could not confirm it and consequently could give no expression on the subject.

The Russians are very much pleased with the stand we have taken and are already beginning to treat us as Allies. The French are delighted also and according to telegraphic reports there have been demonstrations of an enthusiastic nature in Paris. I don't like the position of England or rather the

British Embassy here. Neither the British Ambassador nor the French nor the Italian has called nor have I met any one of them since Bernsdorf was given his passports—it seemed to me that it would not have been improper for those Ambassadors to call and express gratification at least that our diplomatic relations with the arch-enemy of their countries had been severed. The Belgian Minister deBuisseret did call and expressed himself as being much pleased with the stand we had taken. The Siamese Minister called yesterday and stated that his Government had instructed him to ascertain what reply the neutral countries had made or would make to the suggestions of President Wilson that they take similar action to ours. I told him that no official information had been received on the subject and that all I knew concerning it was what had appeared through the public prints. He told me he had called upon me first, but proposed to call upon the Ministers of the other neutral countries and that when he left the Embassay he would go to the Norweigan Legation; I requested him to phone me the result of his conference with Minister Prebensen, which he did later and informed me that the Scandinavian countries had come to no conclusion other than an agreement to confer and make a joint reply. Meantime I had telephoned to the Chinese Minister and called at his Legation where he informed me of the action taken by his government. He seemed very much pleased thereat and I was exceedingly also. I informed the Siamese Minister of the action taken by China and strongly urged him to recommend his Government to do likewise—he about promised to do so. You will observe from the editorial of the Novoe Vremya of today which I send by this pouch that the motives of China are impugned from the Russian viewpoint and that this semi-official organ of the Government states that it will be the policy of Russia to aid Japan in being the heir to the German possessions in the East. It seems to me that we should have some voice in that matter. I account for the luke-warmness if not the opposition of the British Embassy in this way; England fears that America by coming into the war will be too potential a factor in the negotiations for peace. It may be however that the phlegmatic nature of the Englishman has not yet realized what it means for America to sever diplomatic relations with Germany, especially if such step should be followed by a declaration of war, which under the circumstances seems to me to be inevitable. The Allies should bear in mind that their united efforts for two and a half years have been ineffective in bringing the Central Empires to terms. They should also bear in mind that during that period, while they had been weakened by the loss of millions of men and the incurring of billions of debt, America has grown stronger not only in wealth and man-power, but has learned more about making munitions of war than it had acquired during all the years of its existence. I must confess that I am not pleased with the attitude of our English Cousins. As I have written you more than once they dominate the situation in Russia. The French and the Italian Ambassadors almost hesitate to give the time of day without consulting the British Ambassador. British influence has permeated to such an extent Government circles that it brought about the appointment of Sazanov as Ambassador to St. James. Sazanov was removed from the Ministry of Foreign Affairs mainly because he was supposed to be much under British influence. There is no question about his being an able diplomat, nor is there any doubt about his being exceedingly friendly to the English. I have written you time and again how direct commerce with America is interferred with by British dictation and if I have not written you that the people and the commercial circles here both are becoming restive under that domination, I certainly meant to do so. I do recall however having written to either you or Polk that the Russians are saying that if they were going to have a commercial master, there is no reason why they should have changed from Germany especially when the change has entailed such a great cost. It is true that England is financing Russia and has the power to require an approval of how the money advanced should be expended, and it must also be admitted that in doing so England is exercising a right which any country or Government might be expected to exercise under the circumstances. England should not forget however that she is only able to finance Russia and the other Allies by the assistance she gets from the United States. That assistance however will no doubt cease now when there is a prospect of our having use for all of our money to prepare ourselves and it may be that a realization of a fear of such a situation, is the cause of England being so luke-warm in the face of the strong probability of our declaring war against Germany.

The internal situation has quieted down somewhat since my last letter to you on that subject. The note of the Emperor to the new Premier Golitzine advising cooperation between the Government and the law-making bodies of the Empire had a very good effect. There is a slumbering opposition however to the influences controlling the Emperor, and if it were not that Russia is engaged in a life-and-death struggle, it might assume more definite form, and in fact " show its teeth."

The Russian papers have contained several telegrams to the effect that there will be a Coalition Administration in Washington in the event we should engage in war. One telegram today stated that Elihu Root would be Secretary of State and Theodore Roosevelt Secretary of the Navy. Of course I gave the report no credence and trust I was right. I write by this pouch a gossipy letter to Polk which I shall tell him to show you. I wrote Polk some time ago asking him whether it was expected that Ambassadors would tender their resignations at the expiration of the Administration but had no reply. Of course I shall be pleased to tender mine if expected or if customary, but otherwise I shall not do so and am moved to that course not so much by the desire to remain here but by a conviction on my part that I can serve our country quite as well here as anyone else. This may seem conceited but if I felt otherwise I would be equally candid. My relations with the Government are very friendly as I have written you and my relations with my Colleagues in the diplomatic corps are likewise. Minister Pokrovski and his wife will occupy seats in my loge at the ballet this evening as will the Chinese Minister. About two weeks ago I entertained at a dinner the Ministers of Sweden, Norway, Denmark, Holland, Servia, China and Siam. I wrote about this last week but I fear that the pouch containing the letter will not be received for many weeks to come.

With sincere personal regards,
Yours truly,

[sgd] David R. Francis.

February 13th, 1917.

I am this day in receipt of notice from the Agent of the Norweigan steamers in Petrograd that service on that line has been resumed; consequently I send a copy of this letter in the pouch that goes by that route.

Last night there was a large banquet given at one of the principal restaurants of this city by the British Colony to the English members of the Allied Conference now in session here. Speeches were made by Rodzianko, President of the Duma; by an Ex Russian Minister of War and by a Russian Professor in Oxford University; also by Lord Milnor, a British General and a British Admiral. The main object of this banquet appears to have been to cement the relations between England and Russia. The British Ambassador, Sir George Buchanan spoke and proposed the health of Sazanov who has recently been appointed Russian Ambassador to St. James. Sazanov replied; the main subject of the speeches of both Buchanan and Sazanov was, in addition to mutual expressions of admiration, to felicitate Russia and England on the complete understanding now existing between those countries and to express the hope that the relations will become still closer. Each of these two speakers stated that the other was a potential if not the main influence in removing the misunderstanding so long existing betwen England and Russia.

It will require many banquets and other instrumentalities to remove the prejudice existing in Russia against British influence or British domination, which apears to become more distasteful from week to week to the commercial interests of Russia.

I have the honor to be, Sir,
Your obedient servant,

[sgd] David R. Francis.

Exhibit No. 2552

[Unpublished]

[Copy]

State Dept. Doc.
711.612/248½

Petrograd, May 2, 1916.

The Honorable Robert Lansing,
Secretary of State, Washington, D. C.

My Dear Mr. Secretary: I cabled you Sunday of my arrival and of my taking charge on April 28, and of sending a note on the same day to the Foreign Office and of my conference with the Minister of Foreign Affairs and also with the President of The Council of Ministers. My conferences with both of these officials was set forth almost in detail in the cablegram; consequently I shall not tire your patience in a résumé further than to say that the statement of Mr. Sazonoff was so surprising and inexplicable to me that I have been endeavoring since the interview to ascertain the cause for this change of position or of policy on the part of Russia toward the United States in regard to a commercial treaty.

I wrote you at length twice on the steamer while enroute from New York to Christiania, and in both letters expressed my fear that certain interests in New York were making effort to have all trade between our country and Russia pay tribute to England as an intermediary. Since arriving here my fears have not been dissipated; in fact I have heard many things which confirm the suspicions I have cherished.

The economic conference between the Allies which is fixed for Paris June first was, in my judgment, inspired by England, as that country is making decided effort to occupy toward Russia the position held by Germany before the war. It is true that both Sazonoff and Steumer expressed themselves as favoring direct commercial relations between their country and ours, but the English influence here is very strong and a persistent effort is being made to strengthen it. The loan which was being negotiated in New York some eight weeks ago, but for some unaccountable reason has not been consummated, was alluded to by Sazonoff in my interview with him, and he expressed the opinion that it would be impossible for America to get what he called double security on any loan our banks might make to Russia. When I asked him what he meant by double security he said that our capitalists were demanding in addition to the obligation specific collateral. I told him that no country now engaged in war would be able to negotiate a loan in America without collateral and cited my experience and that of others with the Anglo-French loan which we were unable to sell at 98, as we endeavored to do; and in fact never since the expiration of the syndicate have we been able to dispose of those securities without loss. From 96¼ it declined to 93⅝, and when I left America was selling at 95. All of this I told Mr. Sazonoff, but he persisted in saying that Russia would make no loan that required any security other than the faith or credit of the government itself.

In talking with Mr. Meserve, a representative of the National City Bank, on Saturday he told me that Russia had agreed, or was about to agree early in March, to the requirements of New York bankers, but subsequently refused to do so, and the only way of accounting for the change in position was the influence of England which was desirous that all foreign relations of a commercial or financial character had by Russia should be through London.

In a talk with a gentleman today who has had a great deal of experience in Russia and is well known in the United States, the opinion was expressed that Bark, who is the Minister of Finance of Russia, is completely under British influence, and the same gentleman went so far as to state that in his judgment Sazonoff is held in the position of Minister of Foreign Affairs by British rather than by Russian support. If this is true, and I am not prepared to question it, we can account for Russia's change of front concerning the commercial treaty with the United States.

Mr. Sazonoff seemed to be prepared for my broaching the subject of a commercial treaty, because when I did so he very promptly stated that Russia would make no commercial treaty now with any country whatever. In addition to expressing sincere disappointment on the part of our government and our people generally, I made effort to impress upon Mr. Sazonoff that personally I so regretted his position that if not discouraged I was greatly chagrined because of the apparent impossibility of achieving what was my main object in accepting the Russian mission. Our interview was in good spirit on both sides, but there was no variation in his expression to the effect that nothing certainly would be considered until after the Paris conference.

* * * * * * *

The Embassy building is in very poor condition. I am sleeping in the Embassy and taking breakfast here, which is furnished by the wife of one of the messengers; my luncheon and dinner I get elsewhere. Of course I shall not keep up this manner of life because, regardless of my own pleasure and convenience it is not becoming to an American Ambassador. I shall not go to a hotel; the Astoria has been requisitioned by the government for the exclusive accommodation of army officers. The Hotel de l'Europe is full to overflowing, and there is no other hotel in the city which would comport with the dignity of an American ambassador. Mr. Dearing has written you concerning the needs of the Embassy and I have only to add thereto that if we would make headway with the people of this great country it is advisable, if not necessary, that our representative here should live in a manner that would not reflect upon our country by comparison with the representatives of other governments. I have met no official Russians other than those mentioned above, but I have met many Americans whose number seems to be increasing from week to week.

Mr. Pierce told me that he could not remain here longer than August; I made no reply thereto, but could not help feeling that I wished he had said June instead of August. He is carried on the roll of the Embassy as Chief Advisory Officer and has little to do. My predecessor did not give his name to the Master of Ceremonies as one of the suite, but on Dearing's recommendation I have concluded to add his name to that list. I may perhaps write you more definitely concerning Mr. Pierce within a few days.

Your cablegram of information sent via Tokio and also via London was received yesterday; I am preparing a resume of that information to send to the Foreign Office here for its information.

From the most recent dispatches we have had concerning the relations between the United States and Germany it appears that the Imperial Government is willing to make whatever concessions may be required in order to prevent a severence of diplomatic relations.

When in Stockholm I was met by several persons who came there from Germany to confer with me concerning the care of German and Austrian prisoners in Russia which, without exception, they presented as deplorable. We are organizing the inspection force and I shall be able to make more full report on this subject within a few days.

Respectfully yours,
[s] DAVID R. FRANCIS,
American Ambassador.

P. S.—As I have not yet been presented to the Emperor, all communications addressed to any branch of the Russian government must still be signed by the Charge d'Affaires.

D. R. F.

EXHIBIT No. 2553

[State Dept. Doc.—Unpublished]

763.72/3578½

AMERICAN EMBASSY,
Rome, March 20th., 1917.

The Honorable, The SECRETARY OF STATE,
Washington.

MY DEAR MR. SECRETARY: Mrs. Heiberg, the wife of our late Military Attaché, Major Elvin R. Heiberg, is leaving Rome this evening with her two children, returning to Washington, and will be escorted by Mr. Roger C. Tredwell, our Consul here, who goes home on leave. Accordingly I avail myself of this opportunity to write you a confidential letter.

The internal situation here seems about the same as for some time past, except that through apprehension or through the actual sinking of merchant ships by German and Austrian submarines, the lines have been much more closely drawn of late in every way, and this has caused pressure enough to make itself felt in many new directions; for example, bread tickets have just begun to be issued here, the sale of sweets and articles which require sugar are forbidden from the first of next month; the consumption of meat is regulated etc.

All this has naturally an effect on the spirit and temper of the people at large. So far as appears on the surface, however, everything seems to be going along as smoothly as ever; the Government appears to have everything well in hand, and it is only from whispers caught here and there that one finds the existence of the feeling that lies underneath. I would say that the people at large, partly from necessity, but mainly I think because they are really hopeful of a favorable issue of the war, are willing to undergo any reasonable sacrifices to give the ruling authorities the opportunity to carry out their plans, and have steeled themselves to the sacrifices which may be entailed by the great struggle that is expected to take place now almost immediately.

The Government was, as I telegraphed you duly, sustained in the Chamber on Saturday evening by a vote of confidence of 369 to 43.

The fact still stands, however, that the majority is composed of elements held together rather by not knowing what better to do than by any desire to sustain this especial Government.

The situation in Russia and the situation in France are still involved in some mystery, and their effect on Italy will only be known hereafter. For one thing, unless the situation becomes too exigent, Italy will take much pride in being able to show the world that she has a more ordered policy and a more steadfast position than some of the other Allied countries. Baron Sonnino is undoubtedly the master spirit of the Government, and has strengthened himself greatly in the public esteem by his consistent and firm policy united with the moderation of his language as compared to that of some of the other Cabinet leaders.

I am struck by a certain influence which the memory and reputation of Cavour seem to have on the procedure here and indeed on the spirit in which matters are dealt with.

One of the serious elements in the present situation is the depreciation in the currency here. The exchange at present has risen to about 7.86 as against 5.18—the normal exchange. The press is full of discussion about this and all sorts of nostrums are proposed to rectify this trouble, with certain suggestions which certainly are sound if they could be adopted. Naturally these last are related to the fundamental principle of supply and demand.

One trouble is that the rise in exchange is felt throughout Italy in every class and in every direction, and the entire economic situation is affected by it, and unless relieved it may affect disastrously in time even the prosecution of the war.

Out of this situation has arisen apparently a strong desire on the part of those responsible for the future conduct of the Government to get into new relations which may aid in relieving the press existing through the other old relations, and I have had several important people interested in finance come to me to ask if some assistance could not be rendered from America in solving this serious problem. The suggestion made is that it might be found of mutual interest if Italian financiers might be brought into direct relations with American financial circles. Among those who have come to me is the head of the Bank of Italy, greatest of the Italian banks. I have told him to give me a memorandum of the whole situation, and when this is done I will be able to inform you as to what is wanted, and to learn whether what they want will probably interest America sufficiently to justify my reporting the same to you.

One result of the present situation is that Italy finds herself almost completely in the power of England, who has been mainly financing her, and who not unnaturally perhaps has taken measures which many Italians consider far more for England's interest, at least immediate interest, than for that of Italy. In fact, there is much grumbling over England's control of matters, of great, if not of vital, importance, to Italy. An examination of this was England's recent orders against the importation of articles from abroad, which include articles of Italian production whose exportation is of great importance to Italy. For example: fruits, wine, silk, carved stone, wood, etc.

England seems on the insistence of the Italian Government, which in turn was pressed by Sicily and Calabria who live by the sale of their fruits, to have bought up the fruit crop of Italy for distribution in France, where a part of it is as I understand to be resold, and a part given to the British soldiers. But the problem of silk and other articles still remains and causes great dissatisfaction here, and I understand in France also. In this connection it seems not out of place to mention a fact that was told me the other day by General Ricciotti Garibaldi.

He says that he was in London a few months back and attended a dinner at which a number of important persons were invited to meet him, and in the course of the conversation he asked how the Allies were going to pay their debts when the war was over. On this point, an Englishman whom he spoke of as a man of great importance and wealth, worth he said about forty million dollars, said: "Why, we will make America (The United States) pay for them". "How will you do this?" asked General Garibaldi. "Why", said the other, "England will at the close of the war control all of the markets of the world, and if necessary we will put an ad valorem tax of 100 per cent which will have the effect of making America pay the debts."

This is chiefly of interest to me as showing a point of view which undoubtedly is very extensively held. Happily, as I said to General Garibaldi, we are pretty good at building tariff walls ourselves if occasion demands.

I am, my dear Mr. Secretary, with kindest regards,

Yours very sincerely,

[s] THOS. NELSON PAGE.

("Exhibit No. 2554" appears in text on p. 8514)

Exhibit No. 2555

Foreign Relations, 1914 Supp. p. 215
763.72112/26

The Ambassador in Great Britain (Page) to the Secretary of State

[Telegram]

American Embassy
London, August 5, 1914, 10 p.m.
(Received August 6, 6.30 a.m.)

278. The Foreign Office has just transmitted to me the following list of articles which the British Government have declared to be absolute and conditional contraband, respectively, during the present war:

(The following articles will be treated as absolute contraband:)

1. Arms of all kinds, including arms for sporting purposes, and their distinctive component parts.
2. Projectiles, charges, and cartridges of all kinds, and their distinctive component parts.
3. Powder and explosives specially prepared for use in war.
4. Gun mountings, limber boxes, limbers, military waggons, field forges, and their distinctive component parts.
5. Clothing and equipment of a distinctively military character.
6. All kinds of harness of a distinctively military character.
7. Saddle, draught, and pack animals suitable for use in war.
8. Articles of camp equipment and their distinctive component parts.
9. Armour plates.
10. Warships, including boats, and their distinctive component parts of such a nature that they can only be used on a vessel of war.
11. Aeroplanes, airships, balloons, and aircraft of all kinds, and their component parts, together with accessories and articles recognisable as intended for use in connection with balloons and aircraft.
12. Implements and apparatus designed exclusively for the manufacture of munitions of war, for the manufacture or repair of arms, or war material for use on land and sea.

The following articles will be treated as conditioned contraband:

1. Foodstuffs.
2. Forage and grain suitable for feeding animals.
3. Clothing, fabrics for clothing, and boots and shoes, suitable for use in war.
4. Gold and silver in coin or bullion; paper money.
5. Vehicles of all kinds available for use in war and their component parts.
6. Vessels, craft, and boats of all kinds; floating docks, parts of docks, and their component parts.
7. Railway material, both fixed and rolling stock, and materials for telegraphs, wireless telegraphs, and telephones.
8. Fuel; lubricants.
9. Powder and explosives not specially prepared for use in war.
10. Barbed wire, and implements for fixing and cutting the same.
11. Horseshoes and shoeing materials.
12. Harness and saddlery.
13. Field glasses, telescopes, chronometers, and all kinds of nautical instruments.

American Ambassador.

Exhibit No. 2556

Foreign Relations, 1916 Supp., p. 385
763.72112/2527

The Vice Consul at London (Reed) to the Secretary of State

London, *April 20, 1916.*
(Received May 9)

[Despatch not printed, as it merely quotes from and summarizes the enclosure]

[Enclosure]

List of Articles Declared to be Contraband of War Presented to Parliament

The articles declared to be contraband of war in the Proclamation now in force have been arranged alphabetically in the accompanying list. It is hoped that this will be convenient to all parties concerned.

The list comprises the articles which have been declared to be absolute contraband as well as those which have been declared to be conditional contraband. The circumstances of the present war are so peculiar that His Majesty's Government consider that for practical purposes the distinction between the two classes of contraband has ceased to have any value. So large a proportion of the inhabitants of the enemy country are taking part, directly or indirectly, in the war that no real distinction can now be drawn between the armed forces and the civilian population. Similarly, the enemy Government has taken control, by a series of decrees and orders, of practically all the articles in the list of conditional contraband, so that they are now available for Government use. So long as these exceptional conditions continue our belligerent rights with respect to the two kinds of contraband are the same, and our treatment of them must be identical.

FOREIGN OFFICE, *April 13, 1916.*

LIST OF ARTICLES

Acetic acid and acetates.
Acetic ether.
Acetones, and raw and finished materials, usable for their preparation.
Aircraft of all kinds, including aeroplanes, airships, balloons, and their component parts, together with accessories and articles suitable for use in connection with aircraft.
Aluminium, alumina, and salts of aluminium.
Ammonia liquor.
Ammonium salts.
Aniline and its derivatives.
Animals, saddle, draught, or pack, suitable, or which may become suitable, for use in war.
Antimony, together with the sulphides and oxides of antimony.
Apparatus designed exclusively for the manufacture of munitions of war, or for the manufacture or repair of arms or of war material for use on land or sea.
Armour plates.
Arms of all kinds, including arms for sporting purposes, and their component parts.
Arsenic and its compounds.
Arsenical ore.
Articles especially adapted for use in the manufacture or repair of tyres.
Asbestos.
Barbed wire.
Barium chlorate and perchlorate.
Bauxite.
Benzol and its mixtures and derivatives.
Bladders, guts, casings, and sausage skins.
Bones in any form, whole or crushed, and bone ash.
Boots and shoes suitable for use in war.
Borax, boric acid, and other boron compounds.
Bromine.
Calcium acetate, calcium nitrate, and calcium carbide.
Camp equipments, articles of, and their component parts.
Camphor.
Capsicum.
Carbon disulphide.
Carbon, halogen compounds of.
Carbonyl chloride.
Carborundum in all forms.
Casein.
Caustic potash and caustic soda.
Celluloid.
Charges and cartridges of all kinds and their component parts.
Chlorides, metallic (except chloride of sodium) and metalloidic.
Chlorine.
Chrome ore.
Chronometers.
Clothing and fabrics for clothing suitable for use in war.
Clothing of a distinctively military character.
Cobalt.
Copper pyrites and other copper ores.

Copper unwrought and part wrought, copper wire, alloys and compounds of copper.
Cork, including cork dust.
Corundum, natural and artificial (alundum), in all forms.
Cotton, raw, linters, cotton waste, cotton yarns, cotton piecegoods, and other cotton products capable of being used in the manufacture of explosives.
Cresol and its mixtures and derivatives.
Cyanamide.
Docks, parts of.
Emery in all forms.
Equipment of a distinctively military character.
Ethyl alcohol.
Explosives, whether specially prepared for use in war or not.
Ferro alloys, including ferro-tungsten, ferro-molybdenum, ferro-manganese, ferro-vanadium, and ferro-chrome.
Field forges and their component parts.
Field glasses.
Flax.
Floating docks and their component parts.
Foodstuffs.
Forage and feeding stuffs for animals.
Formic ether.
Fuel, other than mineral oils.
Fuming sulphuric acid.
Furs utilisable for clothing suitable for use in war.
Glycerine.
Gold.
Gun mountings and their component parts.
Hair, animal, of all kinds, and tops, noils, and yarns of animal hair.
Harness and saddlery.
Harness of a distinctly military character, all kinds of.
Hemp.
Hides of cattle, buffaloes, and horses.
Horseshoes and shoeing material.
Hydrochloric acid.
Implements designed exclusively for the manufacture of munitions of war, or for the manufacture or repair of arms or of war material for use on land or sea.
Implements for fixing and cutting barbed wire.
Iodine and its compounds.
Iron, electrolytic.
Iron, haematite and haematite iron ore.
Iron pyrites.
Kapok.
Lathes capable of being employed in the manufacture of munitions of war.
Lead and lead ore.
Leather belting, hydraulic leather, pump leather.
Leather, undressed or dressed, suitable for saddlery, harness, military boots, or military clothing.
Limbers and limber-boxes and their component parts.
Lubricants.
Machines capable of being employed in the manufacture of munitions of war.
Manganese and manganese ore.
Manganese dioxide.
Maps and plans of any place within the territory of any belligerent, or within the area of military operations, on a scale of 4 miles to 1 inch or any larger scale, and reproductions on any scale, by photography, or otherwise, of such maps or plans.
Materials especially adapted for use in the manufacture or repair of tyres.
Materials used in the manufacture of explosives.
Mercury.
Methyl alcohol.
Military waggons and their component parts.
Mineral oils, including benzine and motor spirit.
Molybdenum and molybdenite.
Motor vehicles of all kinds and their component parts and accessories.
Naphthalene and its mixtures and derivatives.
Nautical instruments, all kinds of.

Negotiable instruments.
Nickel and nickel ore.
Nitric acid and nitrates of all kinds.
Oils and fats, animal, fish, and vegetable, other than those capable of use as lubricants, and not including essential oils.
Oleaginous seeds, nuts, and kernels.
Oleum.
Paper money.
Paraffin wax.
Peppers.
Phenol (carbolic acid) and its mixtures and derivatives.
Phosphorus and its compounds.
Phosgene.
Potassium salts.
Powders, whether specially prepared for use in war or not.
Projectiles of all kinds and their component parts.
Prussiate of soda.
Railway materials, both fixed and rolling stock.
Ramie.
Rangefinders and their component parts.
Rattans.
Realisable securities.
Resinous products.
Rubber (including raw, waste, and reclaimed rubber, solutions and jellies containing rubber, or any other preparations containing rubber, balata, and guttapercha, and the following varieties of rubber, viz, Borneo, Guayule, Jelutong, Palembang, Pontianac, and all other substances containing caoutchouc), and goods made wholly or partly of rubber.
Sabadilla seeds and preparations therefrom.
Scheelite.
Searchlights and their component parts.
Selenium.
Silver.
Skins of calves, pigs, sheep, goats, and deer.
Skins utilisable for clothing suitable for use in war.
Soap.
Sodium.
Sodium chlorate and perchlorate.
Sodium cyanide.
Solvent naphtha and its mixtures and derivatives.
Starch.
Steel containing tungsten or molybdenum.
Submarine sound signalling apparatus.
Sulphur.
Sulphur dioxide.
Sulphuric acid.
Sulphuric ether.
Tanning substances of all kinds, including quebracho wood and extracts for use in tanning.
Telegraphs, materials for.
Telephones, materials for.
Telescopes.
Tin, chloride of tin, and tin-ore.
Toluol and its mixtures and derivatives.
Tools capable of being employed in the manufacture of munitions of war.
Tungsten.
Turpentine (oil and spirit).
Tyres for motor vehicles and for cycles.
Urea.
Vanadium.
Vegetable fibres and yarns made therefrom.
Vehicles of all kinds, other than motor vehicles, available for use in war, and their component parts.
Vessels, craft, and boats of all kinds.
Warships, including boats and their component parts of such a nature that they can only be used on a vessel of war.
Wireless telegraphs, materials for.
Wolframite.

Wood tar and wood tar oil.
Wool, raw, combed, or carded; wool waste; wool tops and noils; woollen or worsted yarns.
Xylol and its mixtures and derivatives.
Zinc ore.

Exhibit No. 2557

F. R. 1914, Supp. p. 572
File No. 763.72111/252

The German Ambassador (Bernstorff) to the Counselor for the Department of State

New York, *September 15, 1914.*
[*Received September 16.*]

My Dear Mr. Lansing: Although you told me, when I last had the pleasure of seeing you, that according to the neutrality laws of the United States nothing could be done in the following matter, I beg to draw your attention to the facts mentioned below:

Purchase of horses for the English Army: 31,000 in St. Paul, Minnesota; 12,000 in Chicago, Illinois; 5,000 in Cincinnati; 1,000 in Evansville, Indiana; 500 in Lexington, Kentucky.

Japan purchases field guns, ammunition, etc., through Mitsui and Company.

Winchester Arms Manufacturing Company, New Haven, has delivered 500,000 rifles to the London Armory since August 5.

Japan orders dynamite from the Hercules and the Giant Powder Company, all available quantities.

Russia purchases from powder trust (DuPont Company) 1,000 tons powder for cannon, 1,000 tons powder for rifles, shipment via San Francisco.

I know that I cannot make any complaint in this matter, but I only wished to draw your attention to it, because every cargo of arms and ammunition, etc., which is sent to Europe must necessarily prolong the war, and this does not seem to be the wish either of the American Government or the American people.

Yours very sincerely,

J. Bernstorff

P. S. I further hear that a French general and a French senator are staying at the Bethlehem Club, Bethlehem, Pennsylvania, where they are ordering arms, etc., at the Bethlehem Steel Works.

Exhibit No. 2558

F. R. 1914, Supp. p. 573
File No. 763.72111/252

The Counselor for the Department of State to the German Ambassador (Bernstorff)

Department of State,
Washington, September 16, 1914.

My Dear Mr. Ambassador: I have received your informal note of the 15th instant calling my attention to the purchase of certain military supplies in this country by the belligerents now engaged in the European wars. I am glad to have this information, but, as I recently told you, there appears to be nothing that can be done to prevent traffic in contraband of war under the neutrality laws or the treaties of the United States so long as such traffic is limited to ordinary commercial transactions by citizens of the United States.

I am (etc.)

Robert Lansing.

Exhibit No. 2559

F. R. Supp. 1915, pp. 700–1
File No. 763.72111Em1/13

The Ambassador in Austria-Hungary (Penfield) to the Secretary of State

Vienna, *July 2, 1915.*
No. 608) [*Received July 20.*]

Sir: I have the honor to transmit herewith enclosed a copy and translation of a note dated June 29 from Baron Burian, the Austro-Hungarian Minister for

Foreign Affairs, relative to the shipment of arms and ammunition by citizens of the United States to Great Britain and her allies, and taking issue with the American Government as to its neutrality in permitting the continuance of this traffic in view of the proportions to which it has grown in view of the fact that Austria-Hungary and Germany are cut off from the American market. The full text of the note was today cabled you in cipher.

In view of the importance of the subject in hand and of the delay which would attend a transmission by pouch, I am venturing to bring to your attention by telegraph certain actions on the part of the Austro-Hungarian and German Governments which have come to my notice, which form precedents, and which, although no doubt already known to the Department, I feel it my duty to recall to your notice on this occasion. The Embassy has ventured, unofficially, to recall these facts to the Minister of Foreign Affairs and did not omit to mention the large number of so-called Mexican guns now in the hands of the Austro-Hungarian troops, the shipment of which to Mexico was prevented only by the outbreak of the present European War, and likewise that American manufacturers of war materials could transfer their plants to Canada with a facility equal to that evidenced by the removal of the Belgian arms plant from Herstal to Germany, and the still more recent removal of similar plants from the shores of the Adriatic provinces—from Monfalcone, Pola, and Fiume—to safer places within the Monarchy where they are now in operation.

It was further suggested that the proportion of arms and ammunition supplied to the Allies by American manufacturers was probably much exaggerated in the Austro-German mind; that no account seemed to be taken of the fact that France and England, with her colonies, were utilizing every available resource to this end; that American manufacturers realized that the production of articles of this kind was altogether of a temporary nature, and that one might be sure that their attention had not been distracted thereby from the rich fields for export in South America and Asia, which had formerly been supplied by Europe, but which must now look to the United States for supplies. It was reasonable to suppose that American business men had not lost sight of the future advantages of gaining control of those markets in the present circumstances, and that therefore the Nation can not be supposed to have given itself up to the production of war material to the degree to which Austro-German publicists seem to imagine; that, to the contrary, should the United States mobilize her manufactories on the lines at present followed in Great Britain, it is highly probable that enough ammunition could, within a short time, be produced to supply the wants of any of the belligerents.

(I have etc.)

FREDERIO C. PENFIELD

F. R. Supp. 1915, p. 791–3

[Enclosure—Translation]

The Austro-Hungarian Minister of Foreign Affairs (*Burian*) *to the American Ambassador* (*Penfield*)

VIENNA, *June 29, 1915.*

No. 59, 465/7)

The far-reaching effects which result from the fact that for a long time the traffic in munitions of war to the greatest extent has been carried on between the United States of America on the one hand and Great Britain and its allies on the other, while Austria-Hungary as well as Germany have been absolutely excluded from the American market, have from the very beginning attracted the most serious attention of the Imperial and Royal Government.

If now the undersigned permits himself to address himself to this question, with which the Washington Cabinet has been concerned until now only with the Imperial German Government, he follows the injunction of imperative duty to protect the interests intrusted to him from further serious damage which results from this situation as well to Austria-Hungary as to the German Empire.

Although the Imperial and Royal Government is absolutely convinced that the attitude of the Federal Government in this connection emanates from no other intention than to maintain the strictest neutrality and to conform to the letter of the provisions of international treaties, nevertheless, the question arises whether the conditions as they have developed during the course of the war, certainly independently of the will of the Federal Government, are not such as in effect thwart the intentions of the Washington Cabinet or even actually oppose them. In the affirmative case—and affirmation, in the opinion of the Imperial and Royal Government, can not be doubted—then immediately follows the further question whether it would not seem possible, even imperative, that appropriate measures be adopted toward bringing into full effect the desire of the Federal Government to maintain an attitude of strict parity with respect to both belligerent parties. The Imperial and Royal Government does not hesitate to answer also this question unqualifiedly in the affirmative.

It can not certainly have escaped the attention of the American Government, which has so eminently cooperated in the work of The Hague, that the meaning and essence of neutrality are in no way exhaustively dealt with in the fragmentary provisions of the pertinent treaties. If one takes into consideration particularly the genesis of Article 7 of the fifth and thirteenth conventions, respectively, upon which the Federal Government clearly relies in the present case, and the wording of which, as is in no way to be denied, affords it a formal pretext for the toleration of traffic in munitions of war now being carried on by the United States, it is only necessary, in order to measure the true spirit and import of this provision—which, moreover, appears to have been departed from in the prevention of the delivery of vessels of war and in the prevention of certain deliveries to vessels of war of belligerent nations—to point out the fact that the detailed privileges conceded to neutral states in the sense of the preamble to the above-mentioned convention are limited by the requirements of neutrality which conform to the universally recognized principles of international law.

According to all authorities on international law who concern themselves more particularly with the question now under consideration, a neutral government may not permit traffic in contraband of war to be carried on without hindrance when this traffic assumes such a form or such dimensions that the neutrality of the nation becomes involved thereby.

If any one of the various criteria which have been laid down in science in this respect be used as a basis in determining the permissibility of commerce in contraband, one reaches the conclusion from each of these criteria that the exportation of war requisites from the United States, as is being carried on in the present war, is not to be brought into accord with the demands of neutrality.

The question now before us is surely not whether American industries which are engaged in the manufacture of war material should be protected from loss in the export trade that was theirs in times of peace. Rather has that industry soared to unimagined heights. In order to turn out the huge quantities of arms, ammunition, and other war material of every description ordered in the past months by Great Britain and her allies from the United States, not only the full capacity of the existing plants, but also their transformation and enlargement and the creation of new large plants, as well as a flocking of workmen of all trades into that branch of industry, in brief, far-reaching changes of economic life encompassing the whole country, became necessary. From no quarter, then, can there come any question of the right of the American Government to prohibit, through the issuance of an embargo, that enormous exportation of war implements that is openly carried on and, besides, is commonly known to be availed of by only one of the parties to the war. If the Federal Government would exercise that power it possesses, it could not lay itself open to blame if, in order to keep within the requirements of the law of the land, it adopted the course of enacting a law. For while the principle obtains that a neutral state may not alter the rules in force within its province concerning its attitude toward belligerents while war is being waged, yet this principle, as clearly appears from the preamble to the thirteenth Hague convention, suffers an exception in the case "ou l'experience acquise en demontrerait la necessite pour la sauvegarde de ses droits" (where experience has shown the necessity thereof for the protection of its rights).

Moreover, this case is already established for the American Government through the fact that Austria-Hungary, as well as Germany is cut off from all commercial intercourse with the United States of America without the existence of a legal prerequisite therefor—a legally constituted blockade.

In reply to the possible objection that, notwithstanding the willingness of American industry to furnish merchandise to Austria-Hungary and Germany as well as to Great Britain and her allies, it is not possible for the United States of America to trade with Austria-Hungary and Germany as the result of the war situation, it may be pointed out that the Federal Government is undoubtedly in a position to improve the situation described. It would be amply sufficient to confront the opponents of Austria-Hungary and Germany with the possibility of the prohibition of the exportation of foodstuffs and raw materials in case legitimate commerce in these articles between the

Union and the two Central Powers should not be allowed. If the Washington Cabinet should find itself prepared for an action in this sense, it would not only be following the tradition always held in such high regard in the United States of contending for the freedom of legitimate maritime commerce, but would also earn the high merit of nullifying the wanton efforts of the enemies of Austria-Hungary and Germany to use hunger as an ally.

The Imperial and Royal Government may therefore, in the spirit of the excellent relations which have never ceased to exist between the Austro-Hungarian Monarchy and the United States of America, appeal to the Federal Government in sincere friendship, in view of the expositions here set forth, to subject its previously adopted standpoint in this so important question to a mature reconsideration. A revision of the attitude observed by the Government of the Union in the sense of the views advocated by the Imperial and Royal Government would, according to the convictions of the latter, be not only within the bounds of the rights and obligations of a neutral government, but also in close keeping with those principles dictated by true humanity and love of peace which the United States has ever written on its banner.

The undersigned has the honor to ask the good offices of his excellency, the ambassador extraordinary and plenipotentiary of the United States of America, Mr. Frederic Courtland Penfield, to convey the foregoing by telegram to the attention of the Washington Cabinet; he avails himself (etc.)

BURIAN

EXHIBIT No. 2560

F. R. Supp. 1915, pp. 794–8
File No. 763.72111Em1/13

The Secretary of State to the Ambassador in Austria-Hungary (*Penfield*)

[Telegram]

WASHINGTON, *August 12, 1915.*

846. Your 751, July 1 and 759, July 5. Please present a note to the Royal Foreign Office in reply to its note of June 29, in the following sense:

The Government of the United States has given careful consideration to the statement of the Imperial and Royal Government in regard to the exportation of arms and ammunition from the United States to the countries at war with Austria-Hungary and Germany. The Government of the United States notes with satisfaction the recognition by the Imperial and Royal Government of the undoubted fact that its attitude with regard to the exportation of arms and ammunition from the United States is prompted by its intention to "maintain the strictest neutrality and to conform to the letter of the provisions of international treaties," but is surprised to find the Imperial and Royal Government implying that the observance of the strict principles of the law under the conditions which have developed in the present war is insufficient, and asserting that this Government should go beyond the long-recognized rules governing such traffic, by neutrals and adopt measures to "maintain an attitude of strict parity with respect to both belligerent parties."

To this assertion of an obligation to change or modify the rules of international usage on account of special conditions the Government of the United States can not accede. The recognition of an obligation of this sort, unknown to the international practice of the past, would impose upon every neutral nation a duty to sit in judgment on the progress of a war and to resrict its commercial intercourse with a belligerent whose naval successes prevented the neutral from trade with the enemy. The contention of the Imperial and Royal Government appears to be that the advantages gained to a belligerent by its superiority on the sea should be equalized by the neutral powers by the establishment of a system of non-intercourse with the victor. The Imperial and Royal Government confines its comments to arms and ammunition, but if the principle for which it contends is sound, it should apply with equal force to all articles of contraband. A belligerent controlling the high seas might possess an ample supply of arms and ammunition, but be in want of food and clothing. On the novel principle that equalization is a neutral duty, neutral nations would be obligated to place an embargo on such articles because one of the belligerents could not obtain them through commercial intercourse.

But if this principle, so strongly urged by the Imperial and Royal Government, should be admitted to obtain by reason of the superiority of a belligerent at sea, ought it not to operate equally as to a belligerent superior on land?

Applying this theory of equalization, a belligerent who lacks the necessary munitions to contend successfully on land ought to be permitted to purchase them from neutrals, while a belligerent with an abundance of war stores or with the power to produce them should be debarred from such traffic.

Manifestly the idea of strict neutrality now advanced by the Imperial and Royal Government would involve a neutral nation in a mass of perplexities which would obscure the whole field of international obligation, produce economic confusion, and deprive all commerce and industry of legitimate fields of enterprise, already heavily burdened by the unavoidable restrictions of war.

In this connection it is pertinent to direct the attention of the Imperial and Royal Government to the fact that Austria-Hungary and Germany, particularly the latter, have during the years preceding the present European war produced a great surplus of arms and ammunition, which they sold throughout the world and especially to belligerents. Never during that period did either of them suggest or apply the principle now advocated by the Imperial and Royal Government.

During the Boer war between Great Britain and the South African Republics the patrol of the coasts of neighboring neutral colonies by British naval vessels prevented arms and ammunitions reaching the Transvaal or the Orange Free State. The allied republics were in a situation almost identical in that respect with that in which Austria-Hungary and Germany find themselves at the present time. Yet, in spite of the commercial isolation of one belligerent, Germany sold to Great Britain, the other belligerent, hundreds of thousands of kilos of explosives, gunpowder, cartridges, shot, and weapons; and it is known that Austria-Hungary also sold similar munitions to the same purchaser, though in smaller quantities. While, as compared with the present war, the quantities sold were small (a table of the sales is appended), the principle of neutrality involved was the same. If at that time Austria-Hungary and her present ally had refused to sell arms and ammunition to Great Britain on the ground that to do so would violate the spirit of strict neutrality, the Imperial and Royal Government might with greater consistency and greater force urge its present contention.

It might be further pointed out that during the Crimean war large quantities of arms and military stores were furnished to Russia by Prussian manufacturers; that during the recent war between Turkey and Italy, as this Government is advised, arms and ammunition were furnished to the Ottoman Government by Germany; and that during the Balkan wars the belligerents were supplied with munitions by both Austria-Hungary and Germany. While these latter cases are not analogous, as is the case of the South African war, to the situation of Austria-Hungary and Germany in the present war, they nevertheless clearly indicate the long-established practice of the two Empires in the matter of trade in war supplies.

In view of the foregoing statements, this Government is reluctant to believe that the Imperial and Royal Government will ascribe to the United States a lack of impartial neutrality in continuing its legitimate trade in all kinds of supplies used to render the armed forces of a belligerent efficient, even though the circumstances of the present war prevent Austria-Hungary from obtaining such supplies from the markets of the United States, which have been and remain, so far as the action and policy of this Government are concerned, open to all belligerents alike.

But, in addition to the question of principle, there is a practical and substantial reason why the Government of the United States has from the foundation of the Republic to the present time advocated and practiced unrestricted trade in arms and military supplies. It has never been the policy of this country to maintain in time of peace a large military establishment of stores of arms and ammunition sufficient to repel invasion by a well-equipped and powerful enemy. It has desired to remain at peace with all nations and to avoid any appearance of menacing such peace by the threat of its armies and navies. In consequence of this standing policy the United States would, in the event of attack by a foreign power, be at the outset of the war seriously, if not fatally, embarrassed by the lack of arms and ammunition and by the means to produce them in sufficient quantities to supply the requirements of national defense. The United States has always depended upon the right and power to purchase arms and ammunition from neutral nations in case of foreign attack. This right, which it claims for itself, it can not deny to others.

A nation whose principle and policy it is to rely upon international obligations and international justice to preserve its political and territorial integrity, might become the prey of an aggressive nation whose policy and practice it is to increase its military strength during times of peace with the design of conquest, unless the nation attacked can, after war had been declared go into the markets of the world and purchase the means to defend itself against the aggressor.

The general adoption by the nations of the world of the theory that neutral powers ought to prohibit the sale of arms and ammunition to belligerents would compel every nation to have in readiness at all times sufficient munitions of war to meet any emergency which might arise and to erect and maintain establishments for the manufacture of arms and ammunition sufficient to supply the needs of its military and naval forces throughout the progress of a war. Manifestly the application of this theory would result in every nation becoming an armed camp, ready to resist aggression and tempted to employ force in asserting its rights rather than appeal to reason and justice for the settlement of international disputes.

Perceiving, as it does, that the adoption of the principle that it is the duty of a neutral to prohibit the sale of arms and ammunition to a belligerent during the progress of a war would inevitably give the advantage to the belligerent which had encouraged the manufacture of munitions in time of peace and which had laid in vast stores of arms and ammunition in anticipation of war, the Government of the United States is convinced that the adoption of the theory would force militarism on the world and work against that universal peace which is the desire and purpose of all nations which exalt justice and righteousness in their relations with one another.

The Government of the United States in the foregoing discussion of the practical reason why it has advocated and practiced trade in munitions of war, wishes to be understood as speaking with no thought of expressing or implying any judgment with regard to the circumstances of the present war, but as merely putting very frankly the argument in this matter which has been conclusive in determining the policy of the United States.

While the practice of nations, so well illustrated by the practice of Austria-Hungary and Germany during the South African war, and the manifest evil which would result from a change of that practice render compliance with the suggestions of the Imperial and Royal Government out of the question, certain assertions appearing in the Austro-Hungarian statement as grounds for its contentions can not be passed over without comment. These assertions are substantially as follows:

(1) That the exportation of arms and ammunition from the United States to belligerents contravenes, the preamble of the Hague Convention No. XIII of 1907;

(2) That it is inconsistent with the refusal of this Government to allow delivery of supplies to vessels of war on the high seas;

(3) That, "according to all authorities on international law who concern themselves more properly with the question," exportation should be prevented "when this traffic assumes such a form or such dimensions that the neutrality of a nation becomes involved thereby."

As to the assertion that the exportation of arms and ammunition contravenes the preamble of the Hague Convention No. XIII of 1907, this Government presumes that reference is made to the last paragraph of the preamble, which is as follows: "Seeing that, in this category of ideas, these rules should not, in principle, be altered, in the course of the war, by a neutral power, except in a case where experience has shown the necessity for such change for the protection of the rights of that power."

Manifestly the only ground to change the rules laid down by the convention, one of which, it should be noted, explicitly declares that a neutral is not bound to prohibit the exportation of contraband of war, is the necessity of a neutral power to do so in order to protect its own rights. The right and duty to determine when this necessity exists rests with the neutral, not with a belligerent. It is discretionary, not mandatory. If a neutral power does not avail itself of the right, a belligerent is not privileged to complain, for in doing so it would be in the position of declaring to the neutral power what is necessary to protect that power's own rights. The Imperial and Royal Government can not but perceive that a complaint of this nature would invite just rebuke.

With reference to the asserted inconsistency of the course adopted by this Government in relation to the exportation of arms and ammunition and that followed in not allowing supplies to be taken from its ports to ships of war on the high seas, it is only necessary to point out that the prohibition of supplies to ships of war rests upon the principle that a neutral power must not permit its territory to become a naval base for either belligerent. A warship may, under certain restrictions, obtain fuel and supplies in a neutral port once in three months. To permit merchant vessels acting as tenders to carry supplies more often than three months and in unlimited amount would defeat the purpose of the rule and might constitute the neutral territory a naval base. Furthermore, this Government is unaware that any Austro-Hungarian ship of war has sought to obtain supplies from a port in the United States, either directly or indirectly. This subject has, however, already been discussed with the Imperial German Government, to which the position of this Government was fully set forth December 24, 1914.

In view of the positive assertion in the statement of the Imperial and Royal Government as to the unanimity of the opinions of text-writers as to the exportation of contraband being unneutral, this Government has caused a careful examination of the principal authorities on international law to be made. As a result of this examination it has come to the conclusion that the Imperial and Royal Government has been mislead and has inadvertently made an erroneous assertion. Less than one fifth of the authorities consulted advocate unreservedly the prohibition of the export of contraband. Several of those who constitute this minority admit that the practice of nations has been otherwise. It may not be inopportune to direct particular attention to the declaration of the German authority, Paul Einicke, who states that at the beginning of a war, belligerents have never remonstrated against the enactment of prohibitions on trade in contraband, but adds "that such prohibitions may be considered as violations of neutrality, or at least as unfriendly acts, if they are enacted during a war with the purpose to close unexpectedly the sources of supply to a party which heretofore had relied on them."

The Government of the United States deems it unnecessary to extend further at the present time a consideration of the statement of the Austro-Hungarian Government. The principles of international law, the practice of nations, the national safety of the United States and other nations without great military and naval establishments, the prevention of increased armies and navies, the adoption of peaceful methods for the adjustment of international differences, and, finally, neutrality itself are opposed to the prohibition by a neutral nation of the exportation of arms, ammunition, or other munitions of war to belligerent powers during the progress of the war.

LANSING.

EXHIBIT No. 2561

TABLE I.[1]—*United States foreign commerce, 1912–1916, merchandise exported and imported*

Years	In dollars		
	Exports of domestic produce	Imports	Excess of domestic exports over imports
1912	$2,170,319,828	$1,653,264,934	$517,054,894
1913	2,428,506,358	1,813,008,234	615,498,124
1914	2,329,684,025	1,893,925,657	435,758,368
1915	2,716,178,465	1,674,169,740	1,042,008,725
1916	4,272,177,579	2,197,883,510	2,074,294,069
	Indexes (1914=100)		
1912	93.0	87.0	118.6
1913	104.0	95.7	141.0
1914	100.0	100.0	100.0
1915	116.5	88.0	239.0
1916	183.0	116.0	476.0

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[1] Source: Figures for this table and subsequent tables taken from "Statistical Abstract of the United States (1921) Department of Commerce."

TABLE II.—*United States foreign commerce*

COMBINED EXPORTS, 1914–1916

	Dollars	Index (1914=100)
A. To Allied Countries, England, France, Italy, Russia:		
1914	$824, 860, 237	100.0
1915	1, 991, 747, 493	241.0
1916	3, 214, 480, 547	389.7
B. Central Powers, Austria-Hungary, Germany:		
1914	169, 289, 775	100.0
1915	11, 878, 153	7.0
1916	1, 159, 653	0.68
C. Neutrals (Northern), Denmark, Holland, Norway, Sweden:		
1914	187, 667, 040	100.0
1915	330, 100, 646	175.8
1916	279, 786, 219	149.0

DOMESTIC EXPORTS, 1914–1916, INDIVIDUAL COUNTRIES

Country	Years	Domestic exports (dollars)
A. To Allied Countries:		
England	1914	$539, 947, 452
Do	1915	1, 101, 052, 020
Do	1916	1, 746, 739, 502
France	1914	166, 463, 386
Do	1915	497, 453, 995
Do	1916	856, 551, 790
Italy	1914	96, 774, 257
Do	1915	267, 835, 512
Do	1916	301, 988, 809
Russia	1914	21, 675, 142
Do	1915	125, 405, 966
Do	1916	309, 200, 446
B. To Central Powers:		
Austria-Hungary	1914	12, 691, 335
Do	1915	104, 525
Do	1916	61, 771
Germany	1914	156, 598, 440
Do	1915	11, 773, 628
Do	1916	1, 097, 882
C. To Neutrals (Northern):		
Denmark	1914	39, 063, 746
Do	1915	67, 377, 249
Do	1916	55, 987, 326
Holland	1914	99, 111, 851
Do	1915	140, 189, 381
Do	1916	111, 605, 378
Norway	1914	19, 335, 283
Do	1915	44, 754, 966
Do	1916	65, 675, 314
Sweden	1914	30, 156, 160
Do	1915	77, 779, 050
Do	1916	46, 518, 201

EXHIBIT No. 2562

F. R. Supp. 1915, p. 104
File No. 763.72/1453

The Ambassador in Germany (Gerard) to the Secretary of State

[Telegram]

BERLIN, *February 14, 1915, 5 p. m.*
[*Received February 15, 11.30 a. m.*]

1595. That Government at least approves late campaign against us shown by official communiqué of day's operations which states: "On our west front artillery ammunition was found which undoubtedly came from American factories." Hear on all sides of possibility of war with America. Belief here that great quantities of munitions are sent from America, thus prolonging the war. German officials confident Germans in America organized by consuls will rise and destroy bridges, arsenals and factories. I assure you the situation is very tense. Newspapers say American Government is partial to England; that we permit English to use our flag and have done nothing although Russians sunk an American ship, the *Washington*, in Black Sea, and that we did not protest against English closing the North Sea.

GERARD

EXHIBIT No. 2563

F. R. Supp. 1915, p. 116
File No. 763.72/1478

The Ambassador in Germany (Gerard) to the Secretary of State

[Telegram]

BERLIN, *February 17, 1915, 10 a. m.*
[*Received February 19, 4.30 p. m.*]

1622. German note which arrived late last night enciphered by the members of staff who worked all night now being cabled you. Hope you can force England to permit foodstuffs and raw materials to enter Germany, in which case proposed blockade will be withdrawn and in all probability I can arrange that no further reference will be made to the question of export of arms and ammunition. If you cannot arrange with England then I can arrange convoy of American ships by American war vessels say from Bantry Bay to Cardiff and also establishment of Newcastle as a port to which American ships can sail safely around north of Scotland but under our guarantee to carry no contraband, England to give guarantee that no ships other than neutrals giving such guarantee and coasting vessels will enter such port. Am awaiting your directions.

GERARD

EXHIBIT No. 2564

F. R. Supp. 1915, pp. 439–41
File No. 763.72/1864

The Ambassador in Germany (Gerard) to the Secretary of State

BERLIN, *June 1, 1915.*
No. 992) [*Received June 14*]

SIR: I have the honor to transmit herewith a memorandum of a conversation which I had on May 29, 1915, with Admiral Behncke, Acting Chief of the German Admiralty Staff, at his request; Commander Gherardi, naval attaché of this Embassy, was present during the conversation.

The conversation touched on many points besides the ones mentioned. Admiral Behncke spoke with great earnestness and with apparent conviction that the German attitude was a correct one. The tone of the conversation was in no sense provocative or unpleasant.

* * * * * * *

Admiral Behncke and the Ambassador each stated their positions in regard to the American delivery of ammunition which has been one of the great factors in the intense dislike of the German people for America. Afterwards Admiral Behncke spoke about the growing power of submarine warfare about as follows:

With the increasing efficiency of the German submarine fleet due to the numbers now under construction and to the greatly increased efficiency of the units, it is certain that we can blockade England absolutely so that not a single ship can get in or out. If we surrender our rights to conduct the warfare of the sea with the submarine, we bar ourselves forever for securing our rights under international law for the free navigation of the ocean for our merchant marine. We can therefore make no concessions which will lead to the abandonment of the submarine blockade. The captains of our submarines have orders to be most careful in their regard for neutral ships and they report having had opportunity to torpedo in one case as many as nineteen ships before a ship flying the British flag came along.

* * * * * * *

JAMES W. GERARD

EXHIBIT No. 2565

State Dept. Doc.
File No. 763.72111/2236½

DEPARTMENT OF STATE,
Washington, May 10, 1915.

The Honorable WOODROW WILSON,
The White House.

MY DEAR MR. PRESIDENT: I am sending you a memorandum by Mr. Lansing in regard to the question of "Warning." As you and I have gone over this matter together I need not re-state my views.

Mr. Villard, of the New York Evening Post, called this morning. I do not know what value you attach to his opinions but he presented the idea of calling a conference of neutral nations to discuss the interference with trade, of which both sides have been guilty.

I explained to him that the difficulty about calling a neutral conference was that any position taken by such a conference during the war would be considered, not upon its merits, but as it affected one side or the other. He thought that both sides had done enough so that complaint could be made against the action of both sides.

With assurances of high respect I am, my dear Mr. President,

Yours very sincerely,

[s] W. J. BRYAN.

Enclosure.

State Dept. Doc.
File No. 763.72111/2236½

DEPARTMENT OF STATE,
OFFICE OF THE COUNSELOR,
May 9, 1915.

The Honorable The SECRETARY OF STATE.

DEAR MR. SECRETARY: I have been thinking over your suggestion that it might be considered that Americans, taking passage in a British vessel bound for a British port and passing through the German "war zone," did so, in a measure at least, at their own peril, and, therefore, were not entitled to the full protection of this Government.

After carefully considering the suggestion I am convinced that this Government is in no position to adopt that view. To accept it would be to admit that the Government of the United States failed in its duty to its own citizens and permitted them to run risks without attempting to prevent them from doing so.

By its note to the German Government on February 10th this Government declared that it would hold Germany to a strict accountability for the loss of American lives and property within the "war zone." It did not discriminate as to the vessels carrying American citizens and property. If it intended to discriminate, it was its manifest duty to its own people to have said so, and to have issued a public warning to them to keep off British ships and to say to them "If you go, you go at your own peril."

On the contrary, this Government has permitted in silence hundreds of American citizens to travel by British steamships crossing the "war zone." It has by its silence allowed them to believe that their Government approved and would stand behind them in case their legal rights were invaded.

I do not see how this Government can avoid responsibility now by asserting that an American in traveling by a British vessel took a risk which he should not have taken. If it held that point of view it should have declared it at the time it protested against the "war zone."

The Government has even gone further than that. When the German Embassy published its "Warning" (a most improper proceeding diplomatically) just prior to the sailing of the *Lusitania*, this Government continued silent. It did not even then advise Americans not to sail on British vessels. It continued to allow them to believe that the assertions in the note of February 10th were unconditional.

It is my opinion in view of the facts that it would cause general public condemnation and indignant criticism in this country, if the Government should now attempt to avoid vigorous action by asserting that the Americans drowned by the torpedoing of the *Lusitania* were blameable in having taken passage on that vessel. They had the right to rely on the note of February 10th, and they had the right to expect a warning from their Government if it considered that it could not support them if they took risks by going abroad on British vessels.

I think that it would be a serious mistake for this Government to take a position so untenable and so vulnerable to attack if it should be taken.

With great respect, I am,

Faithfully yours,

[s] ROBERT LANSING

EXHIBIT No. 2566

State Dept. Doc.
763.72111/2237½

THE WHITE HOUSE,
Washington, 11 May, 1915.

The SECRETARY OF STATE.

MY DEAR MR. SECRETARY: Mr. Lansing's argument seems to me unanswerable. Even if it were just to take the position that a warning that an unlawful and outrageous thing would be done might operate as an exemption from responsibility on the part of those who issued it, so far as our citizens were concerned, it is now too late to take it. We defined our position at the outset and cannot alter it, at any rate so far as it affects the past.

Faithfully Yours,

W. W.

Mr. Villard's suggestion interests me very much; but the objections you make are certainly very vital ones. We can turn the matter over in our minds.

EXHIBIT No. 2567

State Dept. Doc.
763.72/1961½

THE WHITE HOUSE,
Washington, July 2, 1915.

The SECRETARY OF STATE.

MY DEAR MR. SECRETARY: These suggestions of Gerard's seem to be entirely unwise, or, at the least, impossible of acceptance, as, I dare say, they seem to you. But if you have any thought that something might be done, I would be very much indebted to you if you would indicate it.

Faithfully yours,

[s] W. W.

EXHIBIT No. 2568

State Dept. Doc.
711.612/247½

[Copy]

STEAMER OSCAR II,
April 10, 1916.

The HONORABLE ROBERT LANSING,
Secretary of State, Washington, D. C.

MY DEAR MR. SECRETARY: I take the liberty of enclosing copy of letter written to the President in the expectation of being able to mail it in New York by the harbor pilot after clearing of the boat on which I am travelling. The President may not read my letter, or if he does, he may not think it of sufficient importance to talk to you of its contents. If you do not object, I should like you to show this letter to Mr. Polk and also to Mr. Phillips, with both of whom I have talked more fully than with yourself.

Do not conclude from this communication to the President that it is my plan to antagonise any of the large interests in New York or to offend any of the potential influence there. A commercial and financial experience of thirty years or more with the men in New York who regulate affairs there and direct the financial policies throughout our country has inspired me with wholesome respect of their power. At the same time, it is my judgment that they are not as much to be feared, even by those seeking credit, like myself, as they were before the Federal Reserve Bank Act became a law and was put into successful operation. The passing of J. P. Morgan, Sr., has wrought a great change in the relations of New York's financial interests. The young men of that house who control its policies are possessed of ability and imbued with ambition, but no one of them has the prestige nor the force of the man who controlled the policy of the house during his life time, who was a thorough American, and who through several trying ordeals in our financial history deservedly commanded the respect of all who followed his career. Furthermore, the men who control the National City Bank are also possessed of ability and ambition; they are not disposed to yield to the supremacy or leadership of those whom they think no more able to guide than themselves, and whose influence is no more far reaching. There are no surface manifestations of this rivalry between the two great financial competitors, but it does not escape the attention of observing men who have a look behind the scenes in New York. If I had not been called to the mission upon which I have started, it was my plan and desire to aid in distributing throughout the country the great power which the concentration of money in New York had enabled that city to wield. Nothing is so intoxicating as success unless it be the power which success brings. New York capital has for years past domimated and more tyranically all the industry and transportation interests of the United States. They have looked upon any opposition with contempt, but the successful operation of the Federal Reserve Bank system has shorn them of some of their power. It was my judgment that such would be the effect, and that was my reason for advocating the passage of the act with such diligence and perseverance. I have had, during the past six months, some rather spirited correspondence with a strong protective committee of Rock Island securities, and some of the letters that passed have been given to the public through the *Wall Street Journal* and other channels. The *St. Louis Republic*, which I control, has contained a number of editorials on this subject and will continue to work along the same line, although it will be greatly handicapped in such work by my absence, especially as the distance will be so great that it will impede promptness of communication.

I did not intend to disgress to this extent when this letter was begun, especially as its contents may not interest you. If you do not object, I should like you to request Secretary McAdoo to read this letter when he returns. If you have time to write me, I shall be pleased and honored. I hope you will not be annoyed by a communication of this character which, of course, is not official.

I appreciate the labors you have to perform and shall trouble you as little as I possibly can about our relations with Russia. If I can serve our Government or you by going away from the post to which I have been assigned, to transact any diplomatic business requiring temporary absence or entailing any amount of inconvenience on my part, do not hesitate to command me.

With best wishes, I am

Yours sincerely,

[s] David R. Francis.

DRF–d

[Copy]

(Personal—copy for Mr. Lansing)

Steamer Oscar II,
April 8, 1916.

The Honorable Woodrow Wilson,
Washington, D. C.

My Dear Mr. President: We have just cleared from the wharf at Hoboken and I take advantage of the opportunity to write you something of my experiences in New York and since my appointment as ambassador to Russia.

When in Washington I told you how astounding to me had been the expression of approval of my appointment, and you will recall what I gave you as my opinion to be the cause of the universal commendation,—that it was a deep rooted desire on the part of the people to uphold your hands in our critical foreign relations.

In New York, where my acquaintance is mostly in financial circles, the commendations were more personal to myself because the sentiment among my acquaintances in that city is largely Republican. The Republican sentiment of New Yorkers is alternately amusing and exasperating to me; they look upon a Democratic administration of national affairs as a usurpation, and if they have anything to say that is not critical, their tone is one of forebearance to criticise because of their fealty to the administration in power.

This, however, is not what I intended to write you. The main object of this letter is to advise as to the feeling I found concerning our relations with

Russia. At a luncheon given me on Sunday last my son Perry and myself were the only Gentiles present—there were twelve Jews who represented the anti-Russian feeling. They asked me how they could aid in my mission. After asking them if they wished me to be candid in my reply, and receiving an affirmative answer, I told them "by not talking so much." I explained that their antagonism to Russia had been looked upon as attributable more to pro-German sentiment than to any feeling of resentment for the persecution of their race. Mr. Schiff, who is the leader of the pro-German and anti-Russian sentiment in New York, was not present as he was sojourning in the South. I have known him for many years and he has always been extremely courteous to me. A day or two later I saw Dr. Gottheil who represents the more conservative and more reasonable Jewish sentiment of New York,—a sentiment which is inclined to rebell against the domination of Mr. Schiff and a few others who have assumed to speak for the Jews of the United States. I shall write you more on this subject when I have more time.

On my arrival in New York, or, in fact, many weeks previous thereto, I had accepted invitations for luncheons and dinners for every one of the four days of my stay in that city. My commercial or financial relations with the house of J. P. Morgan and Company have been very friendly for fifteen or twenty years. No one of that house, however, attended any one of the functions given to me. When I met any member of the house, including J. P. Morgan himself. the expression of good will was emphatic and spontaneous, as was the manifestation of confidence in my ability to rise to the opportunity before me. Upon further investigation and reflection I have come to the following conclusion, the expression of which is the main object of this hastily written letter. J. P. Morgan and Company are so thoroughly English in sentiment that they look with solicitude, and in fact with suspicion, if not fear, upon any movement to promote commercial relations, or even closer social relations, between Russia and the United States. In other words, their desire and plan is to have whatever Russian financing is done in this country to come through the intermediary of London. They also seem to think that any direct commercial relations between this country and Russia is an approach on their preserves. I have also talked with the National City Bank people who thoroughly agree with my plan to promote direct commercial relations between Russia and the United States without the intervention of any other country or influence. Mr. Vanderlip, president of the National City Bank, will send to Russia during the present month two of his vice-presidents, whose mission he did not make known to me, but Mr. Vanderlip assured me (I have known him for many years) that he would second any efforts I would make to establish direct commercial relations with Russia. I have visited the Western Union Telegraph Company and I think I have induced its president, Mr. Carleton, whom I have known for fifteen years or more, to take under serious consideration the laying of a cable from this country direct to Russia, so that our messages need not be relayed or censored in England.

I have written this much hastily in order to give you some idea of conditions in New York. It may be that I shall find time during the voyage to write you more in detail. I am sure you will excuse this hastily dictated letter which I shall not have time to read before sending.

I do not know what kind of receiption I shall meet with in Petrograd, but shall do my best to properly represent the country over whose destinies you are so wisely presiding. I shall return to the United States in time to participate in the campaign this fall if it is possible for me to do so without neglecting an important duty. It is unnecessary for me to say that you have my best wishes for your success in the trying situation in which you are placed.

My stenographer was unable to put the above on the typewriter in time for the New York pilot; consequently you will not receive it until two weeks or more after my clearance. I concluded not to rewrite it because upon reading I find it gives as succintly as I could express it my view of the situation on my departure from New York.

I am told that this vessel will be held up two or three days at Kirkwall, which is an English port on the northern coast of Scotland; the object is to make a thorough inspection of the cargo and also of the passengers, all of whom, no doubt, have passports. I expect to mail this letter from there; consequently you should receive it by April 22.

It has come to my knowledge that effort has been made in Petrograd to produce the impression that my predecessor has been recalled because of his outspoken pro-ally expressions, and that the nominating of his successor has been influenced, in some degree at least, by the pro-German sentiment in the United States. It is, of course, unnecessary for me to inform you that my sentiments are not pro-German to any extent whatever, but are as nearly neutral as a man with my instinct and ancestry can cherish. It goes without saying that my official conduct and personal utterances will be carefully guarded at all times, as will become a representative of a neutral government.

As to political conditions, it seemed to me from careful observation and diligent inquiry in New York that persistent effort will be made by those who have heretofore influenced Republican nominations to prevent the naming of Mr. Roosevelt at Chicago in June next. The formal announcement of Mr. Root's candidacy, as it appeared in the New York morning papers of April 8, was engineered by Nicholas Murray Butler, who seems to pay more attention to politics than to Columbia University. I stated above that I shall return in time to enter the campaign but I make no such request at this time, as the best service I can render not only to the administration and the party, but to the country itself, it to. negotiate a commercial treaty with Russia. In order to accomplish that which is by no means an easy task, I shall have to feel my way carefully and get my bearings, which I think I can do within sixty days after arriving at Petrograd. Nothing, in my judgment, will contribute as much toward molifying Russian anti-Simitic sentiment as impressing upon the government and the commercial interests of Russia the friendly feeling cherished for them by the people of the United States. Russia, in my judgment, offers a better field for the investment of American capital and for the exercise of American ingenuity and enterprise than any country on the globe. I am rapidly becoming absorbed in the possibilities of my mission; my interest therein has almost supplanted my anxiety over the varied interests I leave in the United States. I realize the great burden you have to bear, and hope I am not presuming in assuring you that you need entertain no solicitude concerning the relations of our country with Russia. I may make mistakes but if so they will not be irreparable,—I have little patience with a man who has not the courage to admit he is wrong when convinced thereof. Our Jewish friends must not expect too much. They are but 3% of the population of Russia. Many cultured and well meaning Russians have no desire to oppress the Jews; in fact they consider the Jewish question almost immaterial compared with the other problems on their hands, and have no conception of the proportion the issue has assumed in the United States.

I am sure you will pardon the length of this letter when you remember that it is inspired by a deep seated desire on the part of the writer to achieve success in a new line of work.

Very sincerely yours,

David R. Francis.

DRF-d

[Typographical errors copied]

Exhibit No. 2569

State Dept. Doc.
Confidential file 763.72/2869.

[Telegram received. Special green]

Berlin (via Copenhagen), *Dated Sept. 14, 1916,*
[*Recd. Sept. 15, 1:50 p. m.*]

Secretary of State,
Washington.

4338. September 14, 12 noon.

In general conversation with von Jagow recently he said that the offensive in the Somme could not continue without the great supply of shells from America. He also said that recently a German submarine submerged in the Channel had to allow forty-one ships to pass and that he was sure that each ship was full of ammunition and soldiers but probably had some American (?) also on board and therefore the submarine did not torpedo without warning. He seemed quite bitter. Gerard.

Egan.

Exhibit No. 2570

Allied loans to December 1, 1916 (including Great Britain, France, Italy, Russia, and Canada)

11/4/14	$10,000,000	French, credit.
2/1/15	25,000,000	Russian acceptances.
4/1/15	26,200,000	French loan.
5/1/15	10,200,000	Russian.
6/26/15	44,436,395	Rothschild-Freres.
9/5/15	20,000,000	Brown—French credit.
10/15/15	25,000,000	Italian.
10/15/15	500,000,000	Anglo—French.
11/ /15	50,000,000	British bank credit.
12/1/15	100,000,000	Canadian.
	45,000,000	Bonbright—French credits.
4/ /16	11,000,000	Russia.
4/1/16	75,000,000	Canadian.
6/18/16	50,000,000	Russian.
8/1/16	100,000,000	American foreign securities.
8/ /16	25,000,000	Brown Bros., French credits.
9/1/16	250,000,000	First U. K. Loan (British).
9/15/16	12,380,000	French—Seligman loan.
10/1/16	100,000,000	Canadian.
10/15/16	50,000,000	City of Paris.
11/2/16	3,881,683	French du Pont treasury note.
11/1/16	36,000,000	French Tri-City.
11/1/16	300,000,000	Second U. K. Loan.
11/11/16	50,000,000	French industrial credit.
	[1] 1,919,098,078	

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[1] Above total does not allow for reduction of approximately $134,636,395, which had been redeemed by Dec. 1, 1916.

Exhibit No. 2571

4-AK

J. P. Morgan & Co.,
Export Department,
New York, August 2, 1916.

[Copy of telegram despatched 10:35 p. m. to Morgan, London]

23656. For E. C. Grenfell. 23611. We had concluded all arrangements, executed necessary papers, secured the approval of the superintendent of banks of the State of New York, and had our attorneys in Albany yesterday morning to file the papers organizing the American and British Loan Corporation, but at the last moment telephoned our attorneys to return without filing papers for reasons stated hereinafter. Our plan of corporation was as follows:

J. P. Morgan, president; H. P. Davison, vice president; directors the same, and Lamont, Porter, Morrow, Stettinius, Hamilton. The capital, $10,000,000; all stock to be owned by J. P. Morgan & Co. subject to approval of the Treasury. We then proposed to borrow money in the market in the usual custom of the Street on demand and time up to a period of one year. We had arranged with the Bankers Trust Co., N. Y., to receive the collateral issuing their receipt to the lender, we to have power of substitution so as to enable us to make sales or for other purposes. The corporation to be properly paid for its services including brokerage.

It has taken us a few days to form an opinion of the result of the offering of the American Foreign Securities Co. notes, which as you know were dated yesterday, and will be cleared on Friday of this week. We regarded this note as very attractive and hoped we were offering it on a basis which would show not only the underwriters but the purchaser a nice and immediate profit. In this we have been somewhat mistaken, although on the whole we regard the undertaking as successful. For your confidential information we and Brown Brothers & Co., New York, have already bought in the market about $9,000,000 of the notes at the issue price. Otherwise the price would have broken and the market become somewhat demoralized. We are still buying but hope to turn the corner within a day or two.

This experience has led us to defer organizing the American and British Loan Corporation pending further consideration whole subject. As you know French are eager to have us undertake another offering which in our judgment is out of the question in the immediate future. In view of the large needs of the Treasury we find ourselves back to your original plan of borrowing upon the promise of the British Government, provided it can be done in a manner and in an amount creditable to the Government. For your consideration we submit the following suggestions:

That the British Government arrange at once to borrow in this market $250,000,000 to $300,000,000 for a period of two years to be secured by collateral [40% Americans], 40% Canadians, 40% Argentine and Chile, thus making 120% of loan. That it be understood that some or all of the American securities may be sold and if as and when sold proceeds should be used to buy the notes in the market if obtainable below a callable price to be fixed. The point of this is that it would insure a market and correspondingly whet the appetites for the issue. If left to our discretion we might or might not sell securities thus hypothecated. That is we would so handle the securities in our possession that we would sell from other securities or from the hypothecated securities as seemed in the interest of Government.

Our thought as to terms would be issue a 5% bond at 99 to be underwritten at 1%, said 1% to include selling expense, we to be paid ½% for our services. You realize we must have continued and due regard to the Anglo-French loan 1915 bonds, and to the American Foreign Securities notes and to secure any such amount as we are considering, the offering must be almost irresistible in character and terms. Much as we regret to say it we doubt if this offering could be made successful without being handled in a very strong and aggressive manner. We have in mind therefore that if this principle and plan are approved by you you might arrange, say, with the Bank of England to underwrite jointly with us up to $100,000,000 of the issue and to trade back and forth in the notes to a point not exceeding in the aggregate that amount at any one time, believing that this plan would so strengthen the situation and develop such a market that we would succeed in ultimately placing the entire issue and be relieved of our joint commitment. We hope foregoing is clear and will be understood as merely a suggestion for your consideration. In this connection you will have in mind the successful outcome of the purchases we made for the two Governments in connection with the Anglo-French loan, 1915. Of course we would not make suggestion if we were not hopeful that we could put the thing through, but we would not have this hope if we were not assured of some such plan as that proposed with Bank of England.

As to terms, they are predicated upon the large amount. We would expect an issue of $100,000,000 to go at a lower interest cost, but we feel the amount desired could not be handled unless most attractive, and that it would be undignified for British Government to appear as obligor on an amount less than $250,000,000. After this issue we would then expect immediately to have our American and British Corporation organized and put into operation, as that would enable us to carry the situation with demand loans, and short time paper pending a further large operation by the British Government if such should prove necessary.

We are assuming that a two-year period would be better for you than a longer period, on account of the present limitations upon your power to use the securities. If not and you were in a position to consider a serial loan say two, five and ten year period, we migh be able to handle same. A five-year note would perhaps have the objection of inviting direct comparison with Anglo-French loan 1915, and hurt somewhat the market price of that issue.—H. P. DAVISON.

MORGAN.

DWM.

NOTE.—Pencil notation enclosed in brackets.

Exhibit No. 2572

46–A

J. P. Morgan & Co.,
Export Department,
New York, August 8, 1916.

[Copy of telegram despatched 9: 30 p. m. to Ministere des Finances pour Harjes, Paris]

13780. 17703. We should regret more than we can state any embarrassment M. Ribot would suffer because of the inability to use Spanish Railways as collateral in this country. We shall make every effort to avoid such embarrassment and if and when a subsequent operation in this country is determined upon, we should expect to take up in the fullest and frankest manner with Ribot what is the wisest course in our judgment for France under all the circumstances as they then exist. We are quite sure that Ribot does not expect us to make a positive commitment at this time; that there will be a second loan and not being able to make such a commitment it would be futile to say that if such loan is made the Spanish railways will positively be included.

We regret that there is a misunderstanding in your minds as to our responsibility for the appeal for securities. If you will read your 16853, 16899, our 12451 and your 16915, you will see how clearly we tried to point out to Ribot as we pointed out to Homberg here that it was impracticable to make a definite commitment in advance of securing the requisite amount of collateral. Moreover, if you will consult 11882, 16522. 11919, 16662, 12102, you will see that we were always speaking of approved Government bonds of nonbelligerents and that we kept expressing this view to you despite your suggestion that we leave the door open to the deposit of collateral other than purely Government bonds.

The recollection of J. P. Morgan, H. P. Davison, James Brown, and [Moreau] Delano [member, Brown Bros.] 13790 is that in our conversation with Homberg, he stated that the Spanish railway bonds were guaranteed by the Spanish Government. M. Block advises us that Homberg now says that he stated quite the contrary. Homberg will also say to Ribot that these railway bonds were on the list which was given to us just prior to the closing of the transaction and by not objecting at such a time, we accepted them. They were not on the list, however, in such a way as to indicate that they were not guaranteed bonds. We are all quite clear here that every intimation to us by lists, statements, or otherwise, was that all the securities except Suez Canal shares or American corporations were those of neutral governments, either direct or guaranteed. We should not go into this matter at such length now were it not for its importance in the future. Unless conditions change radically we should expect that your borrowing power in this country would not be limited by the amount and the goodness of your collateral, but by the loanable funds here. We, with the Browns, have thus far been obliged to purchase in excess of $10,000,000 of the notes recently issued in order to protect the market, and save the credit of the undertaking. In many of our cables, in the last 6 mos. we have pointed out to you the great difficulty of carrying on negotiations through two routes, that is communicating directly with Ribot through you, and communicating orally with Homberg and Block here.

Morgan.

Note.—Pencil notations enclosed in brackets.

Exhibit No. 2573

J. P. Morgan

Comparison of collateral sales with purchases of notes, to and including March 31, 1917

Loan	Collateral sales	Purchases of notes	Excess of collateral sales
2 year 1916—9/1/16—(#1)	56, 869, 388. 63	54, 669, 277. 57	2, 200, 111. 06
3 and 5 year 1916—11/1/16 (#2)	39, 852, 892. 55	36, 425, 919. 02	3, 426, 973. 53
1 and 2 year 1917—2/1/17 (#3)	14, 146, 575. 95	11, 409, 058. 21	2, 737, 517. 74
Total to March 31, 1917	110, 868, 857. 13	102, 504, 254. 80	8, 364, 602. 33

Comparison of collateral sales, prior to March 31, 1917, and after March 31, 1917

	Sales to and including March 31, 1917	Sales after March 31, 1917	Total sales
Loan:			
9/1/16—(#1)	56, 869, 388. 63	100, 743. 27	56, 970, 131. 90
11/1/16—(#2)	39, 852, 892. 55	30, 141. 22	39, 883, 033. 77
2/1/17—(#3)	14, 146, 575. 95	305, 586. 88	14, 452, 162. 83
Total	110, 868, 857. 13	436, 471. 37	111, 305, 328. 50
Percent	99. 6	. 4	100. 0

EXHIBIT No. 2574

4–AK

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Oct. 25, 1916.

[Copy of telegram despatched 9 p. m. to Morgan, London]

29405. 24767. Gratified at your prompt and complete response. Are working diligently and expect to issue syndicate letters tonight. Things seem fairly favorable. We are in hopes that they will work out so as to relieve Bank of England of part of its underwriting commitment. We are issuing to press tonight general announcement as follows:

A new British Government loan offering had not been in contemplation at the present time, but the prevailing ease of money and the difficulty which the banks are having in profitably employing their funds have led us to indicate to the British Government that the present is a favorable time for it to establish additional credits in America, even though such credits may not be immediately required. Accordingly, the British Government has today accepted the views of the American bankers and has authorized them to proceed.

Final details have, of course, not yet been arranged, but the total amount of the issue will be $300,000,000, made up of $150,000,000 of three-year notes and the same amount of five-year notes, all to be dated November 1st, or thereabouts, to bear interest at 5½% and to be offered to the investor so as to net at least that interest yield. The loan will be amply secured by high-grade collateral as in the case of last United Kingdom loan, the precise assortment of such collateral to be determined at the time of the offering.

Advance applications for participation in the syndicate which will underwrite the issue indicate that it will be oversubscribed. The British Treasury has of late renewed its shipments of gold to this country upon a large scale. This continued influx of the metal has caused some concern in the banking community and it is believed that the issuance of the proposed loan will tend to cause at least a temporary cessation in gold imports. (End.)

You can readily understand our reasons for various points brought out in foregoing statement, especially our reference to gold imports. If it seems feasible a little later to request Treasury to let up again on these, we will do so. Their renewal in accordance with our request a fortnight ago has been powerful factor in shaping our market to handle proposed loan.—T. W. LAMONT.

MORGAN.

EXHIBIT No. 2575

4–AK

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Aug. 21, 1916.

[Copy of telegram received 11:48 p. m. from Morgan, London]

22221. Referring to latter part of your cable 25120, we should expect if the present loan satisfactory that we should ask you issue further similar amount November, and with that end in view, should wish to be kept fully informed of French and Russian loans in prospect so that we should not find our way blocked.

MORGAN.

("Exhibit No. 2576" appears in text on p. 8531)

EXHIBIT NO. 2577

1 AK
66AG 30a

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Oct. 20, 1916.

29242. 24596. Much appreciated by us all.

24617. Will of course do our utmost to meet desires of Government, but as you can appreciate we are working under great handicaps, not the least one of which is that, upon rumors of new impending issue, prices of both United Kingdom and Royals have sold off sharply, despite our efforts to maintain.

In one point we are not in accord, and that is reduction of our commission from ¾% to ½%. We should be perfectly willing to do this were it not for the fact that the offering group outside of Trio consider that they are properly entitled to some special compensation for extraordinary services rendered; and although we have not told them so, we thoroughly agree. While we look for effective work of every member of the syndicate there is no doubt that this offering group, at least the distributing houses, eliminating Pittsburg and Chicago banks, are the ones upon whom chief distribution work falls. We are reluctant to keep laying stress on point that only way by which Great Britain can possibly hope to meet its requirements between now and March 1st is to have every member of the banking community over here working, not only steadily but enthusiastically. There is no method of instilling this spirit except by means of profit. All these houses took a handsome loss in the Anglo-French operation and they state that after paying expenses, etc., they made little real profit in United Kingdom and Royal operations. We believe that we must compensate them out of our proposed ¾% to the extent of a special ¼%, if we are to carry this business through effectively. We regret that this point did not come up before, but they were all shy about tackling us on it. As for our own compensation, we think ½% is the least that we should consider. Please appreciate again the manner in which we are standing in the gap for British Government.

For your information we are now planning to dispose of practically all our short term portfolio holdings, like telephone notes, etc., which are returning us better than 4%, simply for the purpose of getting more funds to loan to Great Britain on call. We are making every possible sacrifice for her benefit and doing it as quietly as possible, so that banking public generally will not become alarmed at the magnitude of her requirements. Therefore, in this banking operation we feel that ½% is more than moderate. It is no answer to say that we are receiving a profit from the export department, for to our mind the services rendered there are at best not more than adequately compensated.

You ask us to proceed with the whole loan as soon as possible, but you appreciate that the virtual estoppal as to active progress will still exist until we receive satisfactory reply to E. R. Stettinius's cables of last night—but we have licked proposed operation into shape so that with that mess out of the way and with no material change in general conditions, we believe that we can go ahead promptly early next week.

Participation of Bank is just as satisfactory to us as Government. There is, of course, the same understanding as we had in connection with last loan covering matter of subscription as well as underwriting.

For your information, Chancellor's remarks as to necessity of finding $10,000,000 daily for New York payments cabled over here and featured in press this morning.

MORGAN.

EXHIBIT NO. 2578

[Copy]

MARCH 15, 1916.

Mr. H. FISHER,
%*William P. Bonbright & Co., Inc.,*
Paris, France.

DEAR MR. FISHER: Under the Federal Reserve Act, and also the laws of various States, banks are authorized to accept against any one name only to a certain percentage of their capital and surplus, and in addition, with certain few exceptions, their total acceptances outstanding cannot exceed a certain percentage of their capital and surplus. Bank examiners representing both the Federal and State Governments have been giving a great deal of attention to foreign loans made by American bankers, and the position taken by many of them is according to the strictest interpretation of the law possible. Institutions which have taken part in the Anglo-French loan and have also had participations in the French notes have been notified by bank examiners that they must add these two forms of securities when figuring the total amount that they could accept of either or both. If therefore, the banks which have already taken part in these loans, and they are almost without exception the only ones in this country who are willing to make foreign loans to the Allies, make further advances in any form to France, for instance, it is necessary that the security be arranged in such manner as to distinctly separate the loans from other allied government securities. Two loans have been negotiated for France where it has been possible to do so, one under Brown Brothers' credit and the other that of Schneider & Co. In both of these cases, however, individual French banks have drawn the drafts, and it has been possible for the banks to show such acceptances as having been made for account of the several French banks participating. These lines, however, now that the second Schneider loan has been placed, are also becoming exhausted, and in fact a number of banks that took part in the first Schneider loan were unable to do so in the second on this account.

It therefore becomes necessary to devise some new arrangement, and with that in mind, it was suggested that the drawers be a series of A–1 commercial houses, that the guarantees of the French banks be replaced with collateral and that the French Government notes be deposited to assure a possible shipment of gold and the fact that the French Government is behind the issue. On a loan where the security is so built up American banks could establish new lines under the names of the drawing commercial houses, and in the form of collateral loans, which would authorize them to accept an amount equivalent to 25% of their capital instead of only 10%, as would otherwise be the case. If the only collateral were the French Government notes, the bank examiners would unquestionably consider at once the placing of such loans in the lines established for the Anglo-French and French loans, and if this were done, it would make it impossible to place a further acceptance credit of any appreciable amount. On the other hand, if the acceptances are fully collateraled in some other way and the French notes are put up to show that the French Government is back of the situation, and to assure the payment in gold, should it be necessary, it would open up a new line in the case of both National and State banks that they could avail of as they might wish. The suggestion that other collateral take the place of the guarantees of the French banks is, therefore, as you can see, a requirement made necessary by our law, without any consideration whatever as to the standing of the French Government. In other words, if every bank taking part in a new loan was positively assured that the French overnment could and would meet its obligations at maturity beyond the possibility of any human doubt, the law would not allow the banks in this country to loan the French Government more than the 10% or 25% of their capital and surplus that the law prescribes in the case of unsecured and secured loans, respectively.

It being our desire to successfully negotiate a loan, we have suggested the things that seem necessary in order to make it possible to find a market. If we did not thoroughly believe in the strength and stability of the French Government ourselves, we would under no circumstances endeavor to get our friends to take part in any form of loan that might be devised in order to meet the situation, but having full confidence in the intention and ability of the French Government to meet its obligations as they mature, we are very glad indeed to do all within our power to help work out a form of security for which a market can be found. In all of these negotiations it must be borne in mind that the banks in this country that have taken part in the European loans have not been able to pass their participations along to individuals to any appreciable extent, and consequently it is necessary to meet the requirements of our banking law if further funds are to be secured in this country.

Very truly yours,

——— ———, *Vice President.*

FIK/MKS.

Exhibit No. 2579

16A

J. P. Morgan & Co.,
Export Department,
New York, Oct. 18, 1916.

[Copy of telegram despatched 12 m. to Morgan, London]

29171. 24570. We are in accord with your thought with this important exception which appertains at this especial time. We are not finding it altogether easy to have the Treasury borrow on demand in unlimited amounts, even against American securities. The total amount to which participants outside the Trio shared in the temporary demand loan of last summer was $35,000,000 and at the present time we are finding it difficult to increase this amount. The reason is, on the part of trust companies, legal limits and, on the part of national banks, custom, and excessive caution. This being the case we contemplated going further afield with these demand loans, but find that out of town institutions would look upon an offering not as a merely temporary and highly advantageous matter but as a participation in a new issue, which of course we must avoid because of large pending operation. Therefore, to sum up, we shall need all gold available for the present to enable us to keep demand loan down to limits where it can be handled, and we must, therefore, postpone altogether for the present consideration of your suggestion to invest any part of this Gold in quick American securities.

Morgan.

TWL.

Exhibit No. 2580

1128 Sixteenth Street,
Washington, D. C., December 19th, 1916.

Dear Ben: I can kill two birds with one stone—wish you the season's best greetings and at the same time answer your last letter (Dec. 11th) and in part make up for past negligence.

To answer your question first, the Comptroller's report showed approximately 300 million European securities held by national banks at the latest report—not in itself an alarming showing although it can be inferred that trust companies affiliated with national banks hold considerable more. From statements of State and National banks in September it appears that the holdings of securities of various kinds (bonds and stocks which in the case of national banks is mostly bonds) all slow stuff, have increased from 2,800 million to over 4,000 million. The increase of 1,200 million being about equally divided. We assume that the placings of securities of belligerents and non-belligerents have amounted to at least 2,000 million and that the selling back of American securities have been, say, 1,500 million, perhaps more, but it is reasonably sure that a good share of this 3,500 million remains "undigested" and not in the hands of the ultimate investor. That is where the danger lies. There is a great difference between my drawing my balance out of your bank and investing it in the bonds of foreign countries and your investing my balance in that way. I wish very much I could talk with you about the situation. You realize how unwilling I was to do anything that looked like a slap at the allies. Unfortunately, Kent of the bankers in his acceptance circular and Davison by his actions and methods rather forced the issue. I did my best in our conference (6 members) with Davison to make him see the light and suggest something reasonable, but he adhered to his original statement that he proposed to issue the notes or rather sell them over the counter just as rapidly as the market would take them and without limit but as he supposed half a billion or a billion. My suggestion that I could see no objection to a moderate issue one or two hundred million he brushed aside. He said several times he asked no favors, wanted no approval, simply came as a matter of courtesy. He was too proud, I dare say, to suggest that he wanted to be guided by our advice. but I think he would have succeeded far better if he had taken that attitude. He called on the President and we suppose told him much the same story but perhaps more briefly and with less questioning. He returned to New York and at once the papers were full of the grand plan which was to save up the great embarrassment of taking so much gold—the yellow peril having been previously pictured as a serious menace. The inference was natural, and Davision certainly did nothing to avert it, that Davison had consulted the Federal Reserve Board and the President and his plan had been approved. Fortunately for the Board the advisory council met in Washington on the Monday after Davison's visit (which was Saturday). We had intended discussing with them the French revolving credits about which we had wired and written the Federal Reserve Banks—but in view of the situation we took up that and the English treasury notes. They considered the matter and brought back the unanimous recommendation (10 members present) counselling caution and advising that the Board issue a careful statement to the member banks. I strongly urged printing the statement only in the bulletin and I think *that* course would have prevailed if J. P. M. & Co. had not again forced our hand. In response to a phone request from Harding La Monte speaking for Davison said they could not delay their plans, that they were proceeding with their circulars, etc., instanter. I can see that if you had been in New York on the job you could have acted as an intermediary and held Davison in check and at the same time satisfy the fears of the Board. I say *fears* of the Board advisedly. There is no doubt that four or five were really alarmed and the rapidly advancing prices of necessaries of life and the hue and cry that aroused, all tended to feed the flames.

So much for that. If McAdoo had been here, I think he would have tempered things a little—but I am not too sure of that either.

McAdoo sat with the Board today for the first time since August 9th or 10th! We passed a resolution authorizing the arrangement with the Bank of England—without qualification about transacting *no* business.

We talked long and exhaustively about amendments which we are in hopes to get in final shape tomorrow.

I am afraid I must stay here till March 4th but after that I hope I can slip out to Denver as you suggest, thence to Dallas, etc.

Aiken gave us good accounts of you and we had a fine meeting with the Governors, as well as with the Reserve agents, the week previous. Harding is a great improvement as Governor and things are really going better.

We have 6 inches of snow here and 20° F. So you see we think it is winter.

We have very bad news about Kains. Hemorrhage of the bowels, so Perrin wires! The first we heard a month ago was a dilated heart, suddenly this!

Jay is on the sick list with bronchitis. He looks badly.

Mrs. Delano joins me in warmest good wishes, and I am,

Yours very sincerely,

(Signed) FREDERIC A. DELANO.

P. S.—The hour is late. I will ask you to excuse mistakes and want of proofreading.

F. A. D.

EXHIBIT No. 2581

61

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Sept. 21, 1916.

[Copy of telegram received from Harjes, Paris]

17988. For J. P. Morgan and T. W. Lamont. T. W. Lamont's interesting cable received. H. H. Harjes and I had long conference Tuesday; also yesterday with Ribot, French Minister of Finance, and Homberg, discussing at length and in detail situation at home. I believe Ribot understands it and also understands impossibility of carrying out certain schemes which they had hoped might be effected, particularly plan of inducing contractors to draw bills to be accepted by existing banks, or corporation to be organized for purpose. I have talked with them exactly as with Chancellor of the Exchequer and Governor of Bank of England, making clear that in our opinion, nothing can be done immediately, and that pending such time, the A and B Corporation, additional American securities and gold were only resources we knew to be availed of. Of course, we have known this since issue last British loan.

We are to have further conferences and I will remain here perhaps ten days longer. I believe French representatives Anglo-French Finance Commission will go to London when I go, and conferences of commission will begin there.

As we have so many times said at home, situation is so serious that Governments must sit around table with all cards on top and pool their issues, as in military and munitions.

A programme should then be determined to care for immediate requirements and we instructed to turn over every stone to meet situation. I have made clear that unless absolute confidence is reposed in us and Governments will strengthen our hands in every way possible, we will be unable to cope with situation, with no assurances that even then we can do so, and have made it particularly clear that we have no plan or schemes in mind as to how we can move when time arrives. I have suggested one thing we might do promptly if they gave us free hand, would be to arrange as confidentially as possible with important distributing houses, each to start campaign of education throughout country by personal endeavor, they to be compensated in some satisfactory form. Two or three weeks of this should develop this situation and perhaps help as to determine plan or plans. I am confident Governments will back us to limit. Wish you would think over schemes of forming one or more corporations with perhaps large capital, as am confident they would furnish capital for such purpose, and to any amount which would avail sufficient money.

Am sorry to say, my figures are correct; British requirements are 50,000,000 per week and French requirements 50,000,000 per month for how long, cannot say, but requirements unlimited from our point of view.

I know you are giving this your most serious and constant thought. It will be most helpful to me if you will cable me frequently of any suggestions you may have of whatever character, as problem must be solved, and though they have not said so, am confident they will go to any limits.

Wish, without mentioning me, you would ascertain from Guaranty Trust Co. of New York whether absolutely impossible effect credit arrangement without collateral other than Government bonds. Ribot has asked my opinion about giving other collateral which it would embarrass him to do. I have advised him not to give this collateral at this juncture, fearing it would prejudice other operations and not avail of sufficient money. If after London conference, we should be convinced that credit could not be made without collateral and say $100,000,000 could be arranged with collateral, they might be induced to put it up. To make clear my point is that requirements so large that we do not want to do anything which will avail comparatively little and injure situation, and I would suppose that in this commercial credit, if there was hope of accomplishing anything important, it could be done upon credit of drawers backed by French Government. While we have never questioned credit, or position French Government, a few days here would give courage to the most timid and assure him that Allies will win the war and the commercial and industrial institutions of France in general will live and prosper.—H. P. Davison.

HARJES.

EXHIBIT No. 2582

4AK'/66–3/16A0'/66xxx

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, October 30, 1916.

[Copy of telegram despatched 10:45 p. m. to Morgan, London]

29577. For J. P. Morgan. 24877. Is in exact accord with Dwight's and my views. T. W. Lamont away today, and if he has no sidelights I hope matter can be put in shape at once so that we can be ready to operate as soon as present loan negotiations out of the way. Up to tonight subscriptions amount to $120,000,000, this being our first day of advertising. Reports from Central West very encouraging. Am hopeful of satisfactory results.

Wrote statement on steamer to give out upon landing, but was marconied that loan was pending so thought it best to hold up until conferred with partners. They approved statement so am giving out tonight. It is personal and rather long, giving in effect:

1st. Optimistic views of military situation.

2nd. Information regarding remarkable increase of production munitions both England and France, thus making them much more independent of this country.

3rd. Referring to their great wealth and resources, expressing opinion their unsecured external obligation just as good as our own Government obligation.

4th. That if we want to continue trade with them we must treat them as desirable customers and encourage the business, rather than discourage it by exacting unreasonable conditions.

Hope you had opportunity to do a little work at Six Mile Bottom.—H. P. DAVISON.

MORGAN.

EXHIBIT NO. 2583

[October 31st, 1916]

"SEES PROSPERITY LONG AFTER WAR"—H. P. DAVISON EXPECTS VAST TRADE WITH GREAT BRITAIN AND FRANCE TO CONTINUE—FAVORS UNSECURED LOANS—ALLIED NATIONS' BONDS AS SURE TO BE PAID AS THOSE OF OUR OWN GOVERNMENT, HE SAYS

Henry P. Davison, a member of J. P. Morgan & Co., who went abroad two months ago, to be joined in London later by Mr. Morgan, for the purpose of talking over with British and French authorities the part that the United States is playing in the provision of money and munitions, although interviewed on his return to New York on Sunday, replied to a number of requests for further impressions of the war situation yesterday by writing a statement.

Wall Street was inclined to read things into the statement that were not down in black and white. Mr. Davison's estimate of the credit position of France and Great Britain, and his reference to the probable feelings of citizens of this country if the United States were asked to secure Government bonds by collateral, were taken as a suggestion that future loans placed here by the French and British should be straight Government obligations. The $500,000,000 Anglo-French loan is the only large piece of foreign financing that has been accomplished without collateral security. Discussions of the new Russian financing, which has been pending for some months, have turned on the possibility of making that a straight Government loan.

Mr. Davison's statement in full follows:

"My trip to Europe from which I returned to my office this morning was made for the purpose of discussing munitions and finance with the authorities in London and Paris. * * *

"When in France I also availed myself of the opportunity afforded to acquaint myself with the financial and industrial situation and visit some of the munitions plants. * * *

"Now the situation is materially different. During the more than two years which have passed, Great Britain and France have not only carried on the war on the western front, as stated, but have at the same time developed their own manufacturing resources in a way which surpasses belief, so that today they find themselves well equipped and in a position to provide not only for themselves, but in a large degree to assist their allies. In stating this I do not mean to imply that there are not many things that they will require from us as they did before the war, and will after. I do not mean that there are very many supplies which they would rather purchase from us than produce at home, reserving the resources required for such production for other purposes to their better advantage. The point is that today their position is one of independence compared with that of two years ago.

"I am perfectly clear that if we regard Great Britain and France as desirable customers and wish to continue to sell them our products, we must treat them as a producer usually treats a desirable customer, in which event I am confident we will continue to supply them largely, not only during the war but for the reconstruction period which will follow.

"I have been wondering how we in this country would feel if the tables were reversed. Suppose, for instance, we suddenly found ourselves plunged into war, and, finding ourselves wholly unprepared, sought at once $500,000,000 worth of materials and munitions. Say we placed our orders with Great Britain and France and were then told by them that they would require in payment

$100,000,000 in gold, that they would accept $100,000,000 in United States Government bonds, and that the remainder must be paid in United States Government bonds secured by the bonds of certain South American Governments. I believe that this is a fair parallel to our present attitude, and I also believe that if our creditors took that position we would meet their requirements as to payment and at once set about to place ourselves in a position of independence as far as possible to do so.

"It naturally would be inconceivable to us that the people of Great Britain and France could question the obligation of the United States Government in peace or in war. In this connection it is my unqualified opinion that the unsecured Government bonds of Great Britain or of France, free from home income tax and payable in dollars in the United States is just as sure to be paid as the Government bonds of the United States Government no matter how the war terminates. In making this statement I am not unmindful of the cost of this war, and that the cost must be met and can only be met through taxation.

* * * * * * *

"If we are to make assured our present prosperity and increase it, as we properly can, it seems to me important that our people should realize these facts and meet this opportunity, the like of which let us fervently hope will never again be presented. If this prosperity is to be shared by the country at large, our investors, our bankers, and the public generally must take a broad intelligent view of the opportunities before us, and assure the peoples of these foreign Governments that we desire their trade and have confidence as to their financial soundness.

"It is not a question of wealth or value, but purely one of exchange, the solution of which lies with us now and will continue to for a long future if we show ourselves competent to handle it. It is simply a matter of holding and developing our increasing foreign trade and of acquiring in this country a security as sure to be paid as any known in the world."

Exhibit No. 2584

J. P. Morgan & Company,
Export Dept.,
N. Y., Nov. 20, 1916.

[Copy of cable from Morgan, London]

To H. P. Davison.

26519. Had lunch with Chancellor today, who says that during next ninety days he can collect between gold and securities enough to make together $1,000,000,000, and more securities if needed. Of course, he does not wish to use this gold. He wishes to issue new long-time loan here some time after January 1st. Has no doubt whatever of result of that issue, which will certainly go, but as he will have to issue in America at a higher return to investor, he does not wish to make the two issues simultaneous for fear of exciting adverse feeling here.

Since their dollar balances now reduced to practically nothing and exchange having to be paid for in large quantities, he desires advice as to what you would recommend as a course of immediate action. Should he try a new unsecured loan in America between now and January 10th, or should he make one more collateral loan before attempting the big unsecured operation? Should you issue collateral loan similar to one and two, he would wish to arrange it on basis $50,000,000 United States, $50,000,000 Canadian Pacific Ry., $50,000,000 Argentine railways, $50,000,000 British rails, balance Colonials, Japan, Egypt, etc.

* * * * * * *

He is clear, however, that the Allies must continue to pull together, and that he must say and do nothing which would show any irritation he may feel at such an upset of his and our plans; for, after all, no Ally can do without all the others and it must be a case of "bear and forbear" all the way through. He is greatly impressed with skill and usefulness of your propaganda and your speeches are much commented on and approved here.—J. P. Morgan.

Morgan.

EXHIBIT No. 2585

J. P. MORGAN & Co.,
EXPORT DEPT.,
N. Y., Nov. 24, 1916.

To Ministere des Finances, pour Harjes, Paris.

[Extract from cable #14862]

14862. For H. H. Harjes. 80102. Conferred yesterday with Bloch and Casenave and told them that we had hopes of being able to do something for M. Ribot within the next 90 days, either in form of unsecured loan or possibly of another issue of American foreign securities. We have, as you know, been active in furthering propaganda as to desirability of long-term unsecured loan, and believe that we have made some impression upon American investment public, but, frankly, one operation has followed another so closely as to have sated pretty completely for the moment the appetites of all classes of American investors, both institutional and private. By this we mean the various credit operations already alluded to like Schneiders, Brown Bros. & Co., and recent Bonbright industrial credit, French municipals, as well as, of course, the somewhat more considerable direct British borrowings. For these reasons it is impossible, as you yourself point out, to indicate any definite time when a French loan operation for France can be undertaken, but we want you to know that we are engaged in steady educational work to that end. We are today issuing following statement:

"In response to inquiries, we are able to state that British and French Government Treasuries have each authorized the sale in this market of a limited amount of their short term bills running at various maturities from thirty days to six months. These bills, which in form are much similar to New York City revenue bills, will be payable in dollars in New York City. They will probably be available for purchase on or about December 1st, and at rates based largely upon money market conditions."

We have not yet decided upon rates for various maturities, which are likely to run from minimum of 4% to 4½% to above 5%, depending upon money market conditions at the time of actual sale.

For your information, reserves are constantly dropping here despite heavy Gold imports, and money rates are materially stiffening. This is, as you are well aware, time of year when banking institutions all over country look for higher money rates. For this reason and because only few of the larger institutions which already have heavy French and British obligations on hand, are familiar with this form of security, we are inclined, to think that the output of these Treasury Bills for the next ninety days will be limited in amount, perhaps not sufficient to cut any considerable figure in exchange operations.

We consider whole financial situation is of great importance, for, as we have pointed out to the Chancellor of the Exchequer through J. P. Morgan, investment situation at the present time is such that it is difficult to contemplate any new operation in immediate future. Hardly a single one of recent issues of any account is selling above issue price, and this applies to both countries.

MORGAN.

TWL.

EXHIBIT No. 2586

[Copy]

FEDERAL RESERVE BOARD,
Washington, November 23, 1916.

[Confidential]

MY DEAR MR. TREMAN: I have your letter of November 22nd and thank you very much for the same.

I sincerely appreciate your always encouraging remarks about what we are trying to accomplish here.

I am very sorry to learn that Mr. Jay is laid up again and I hope that he will be better again in a few days. Apparently he has taken a chance in getting out too early—a thing that he ought to have avoided.

Your suggestion that I write you about our recent conference here with the Advisory Council I am happy to act upon; all the more since, owing to the absence of Mr. Morgan from the conference, you might otherwise not be advised as to what transpired.

I am inclosing herewith a copy of the statement given to the press at the end of the conference, a report which no doubt you have seen in the papers.

I might add, because it is of considerable interest, that with reference to the first topic—that is, a transfer of vault money to the Federal Reserve banks—the council added that this development would be greatly facilitated by securing an amendment permitting the member banks to count Federal Reserve notes as reserve. All members present favored such an amendment with the exception only of Mr. Rowe, of Cincinnati. Mr. Morgan and Mr. Swinney were not present. We know that Mr. Morgan is in favor of such an amendment. I am not quite posted as to Mr. Swinney's position in the matter.

A free discussion of this topic ensued with the Board, in which both sides of the problem were fully developed.

There is one additional recommendation which may be of interest to you, as follows:

"The Council recommends that to the exceptions contained in section 5202 R. S. as amended by section 13 of the Federal Reserve Act the following should be added as a sixth exception:

"'6th. Liabilities as an endorser on accepted bills of exchange actually owned by the association and rediscounted at home or abroad.'"

The main discussion was on the general financial situation, a topic with which there are closely connected the questions of reserves, gold importations, and foreign loans; also the question of foreign acceptance credits.

To begin with the latter, the Council unreservedly endorsed the position taken by the Board as expressed in Governor Harding's address in New York. They even went further than that—a position which is not quite shared by the Board. I still believe that the position which we took is just right; that is to say that we should not go to the extreme of declaring these bills *ineligible*, but simply to deal with them as a matter of *policy*. I do not think that the point of view taken by the Council, that these acceptances might be eligible for rediscount when offered by member banks, but should not be taken in the open market, is a logical one—anyhow, not as a matter of ruling. What they meant to say was that inasmuch as some member banks now had these bills, they ought to have an opportunity in case of need to rediscount this paper. They did not feel that such obligation, even thought it might be only a moral one, existed toward nonmember banks, and they were in general accord that these acceptances were not a very desirable investment for Federal Reserve banks, and that their use should not be freely encouraged.

As to the general financial situation, it was pointed out that money was not so easy as it looked; that in most of the districts member banks were now lending up pretty well to their legal reserve limits, and that it would not at all surprise the members of the Council if in the near future Federal Reserve banks would be more freely resorted to. As a matter of fact, in some districts, particularly in Boston, banks are pretty well loaned up and rediscount at this time pretty freely with the Federal Reserve banks. Similar indications you have seen in New York.

It was also stated that in some districts banks had been investing a little bit too freely in foreign loans, and that it was time that the Board sounded a note of warning against further loan expansion and locking up of funds.

The question was discussed whether or not the date of November 16, 1917, should be advanced so as to terminate sooner the practice of counting balances with correspondents in reserve and central reserve cities as reserves. If the final step as contemplated for November 1917 took place today, the excess cash reserves would be wiped out and it would be found that, as a matter of fact, the banks are pretty well loaned up to their legal limits. The so-called excess reserves with reserve agents of about $600,000,000 would then appear as what, in fact, they are—bank balances which have been invested in loans by correspondent reserve agents. It was generally felt that it would be to the best advantage of the entire financial situation if Congress would empower the Federal Reserve Board, with sixty days' notice, to put this final change into effect. It would put all the banks on notice and remove some misconceptions as to the existing financial situation. It was generally felt that a step of this kind would have some effect in exploding the theory that further importations of gold must of necessity bring inflation. The banks themselves have the power to a certain extent of dealing with this danger by keeping the reserves higher; and there are other ways and means of dealing with an overflow of gold so as to keep it out of harm's way.

On the other hand, the feeling was freely expressed that some cool thought ought to prevail in dealing with foreign loans; that they ought to be closely scrutinized and that we should not overlook the fact that if this war went on for a long period, even the strongest amongst the European powers might at the end be in a financial situation which would be critical—to say the least—and which would force those who now believe themselves to be making short loans, to accept long term bonds in payment of these now apparently short investments. It was said that sooner or later this unnaturally stimulated export trade would come to a stop and that it would be better to bring it down gradually to a normal scope than to keep it up by an artificial stimulation of foreign loans, so that when peace should be established there would be a gradual falling off and not a perpendicular drop. It was thought that at the end of the war there would be vast opportunities for the United States to act as the world's banker and to do its share in the work of reconstruction then to begin; and that we should see to it that we keep ourselves strong for that moment and be careful not to get involved so deeply at this time as to become the partner of the belligerents to such an extent that when peace should be restored we should be in the position of being dependent upon our debtors rather than of being independent and choosing our own course.

The Board did not feel that it should take the responsibility of advising the investors and it was thought that as long as there was a natural process of financing our foreign trade by a back-flow of securities into the hands of the investors, the United States were doing in effect a cash business which could only be considered a healthy one.

A similar result would be reached by foreign loans secured by our own securities. When, however, our trade is to be maintained by the granting of practically unlimited amounts of unsecured loans to belligerent nations and particularly when these loans are to be put into a form appealing to our banks rather than to investors, the Board feels that such a development would not be a healthy one under present conditions. While in form these short term unsecured foreign bonds or notes may appear self-liquidating, as a matter of fact, the result will be that in the aggregate, many hundreds of millions, or possibly an amount which might approach a billion, would be locked up by our banks in an investment which would have to be seen through to the end of the war and it would then probably have to be turned into long term securities.

The Advisory Council members expressed their unreserved opinion to the effect that this was not advisable and that a further lock up of funds by the banks of the country in such a manner could only be considered with serious misgivings.

In strictest confidence: When Mr. Davison was here last Saturday, he discussed with the Board the question of the British Exchequer bonds and in this entirely informal conference views were developed by the Governor and members of the Board on these very lines and it was a great satisfaction to the Board to see that the Advisory Council members, who independently considered the situation, reached exactly the same conclusions.

Very truly yours,

(signed) PAUL M. WARBURG.

R. H. TREMAN, Esq.,
Deputy Governor, Federal Reserve Bank,
New York.

EXHIBIT No. 2587

4 AK–2/66 3

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 20, 1916.

[Copy of telegram received 8:30 p. m. from Morgan, London]

26519. For H. P. Davison. Had lunch with Chancellor today, who says that during next ninety days he can collect between gold and securities enough to make together $1,000,000,000, and more securities if needed. Of course, he does not wish to use this gold. He wishes to issue a new long time loan here some time after January 1st. Has no doubt whatever of result of that issue, which will certainly go, but as he will have to issue in America at a higher return to investor, he does not wish to make the two issues simultaneous for fear of exciting adverse feeling here.

Since their dollar balances now reduced to practically nothing and exchange having to be paid for in large quantities, he desires advice as to what you would recommend as a course of immediate action. Should he try a new unsecured loan in America between now and January 10th, or should he make one more collateral loan before attempting the big unsecured operation? Should you issue collateral loan similar to one and two, he would wish to arrange it on basis $50,000,000 United States, $50,000,000 Canadian Pacific Ry., $50,000,000 Argentine railways, $50,000,000, British rails, balance Colonials, Japan, Egypt, etc.

In regard to unsecured loan, he suggests that it may be desirable to make it of sufficient size to refund the original Anglo-French bonds into the new one, letting the people who subscribe pay one-half in Anglo-French 5s and one-half in new money. This would of course involve loan of very great size, but only say $500,000,000 of new money and at proper terms of conversion might help the market considerably in Anglo-French 5s.

He is impressed with the great desirability of keeping J. P. Morgan & Co. as his bankers over there in a very liquid condition, so that they can feel free to act in temporary emergencies without inconveniencing themselves or putting themselves in a banking position that they would not like to occupy, and he does not want us, if it can be avoided by any act of his, to put up so large a proportion of available funds as we had prior to last loan. He has at present no obligations to the Allies beyond March 1st, though he knows that in a few weeks before that date there will have again to be an international conference and an arrangement as to what they can get from Great Britain. All that will depend largely upon his American situation at that time, and that in turn will depend upon how much we can do for him between now and March 1st and our opinion of the outlook.

To sum up, what he wants now is advice as to the possibility of immediate action and what that action had better be. Also what effect another secured loan would have on the chances of the unsecured loan a few weeks later. Very confidentially, he is considerably disturbed at the action of France with Kuhn, Loeb & Co. He is clear, however, that the Allies must continue to pull together, and that he must say and do nothing which would show any irritation he may feel at such an upset of his and our plans; for, after all, no Ally can do without all the others and it must be a case of "bear and forbear" all the way through. He is greatly impressed with skill and usefulness of your propaganda and your speeches are much commented on and approved here —J. P. MORGAN.

MORGAN.

EXHIBIT No. 2588

66/4AK 2/16A0'/16ai/30A/66-3

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 21, 1916.

[Copy of telegram despatched 8: 30 p. m. to Morgan, London]

31458. For J. P. Morgan. 26519 arrived at a moment when we ourselves were giving gravest consideration to this [whole] problem. As you know, conditions here change rapidly. At present we do feel time inopportune to discuss any collateral loan issue, and most certainly an unsecured loan. Should hardly look for change of conditions by January 10th. The outlook now is rather against making a new issue of any character until further absorption of previous issues and import of substantial gold. It is discouraging to see each issue on whatever basis drag and need support. We confidently believed that last issue was on a basis which would show a profit to the public, but the requirements are so great and the public now aware of necessity of succeeding issues that we are fearful that no issue on creditable terms will show profit although with lapse of few weeks, conditions may so improve as to give us renewed hopes and courage as in past.

NOTE.—Pencil notations enclosed in brackets.

We are greatly disappointed at delay in launching the short bill operation. It seemed so simple, so comparatively inexpensive, and so manifestly in the interest of the financing that we believed that both Governments would at once instruct us to proceed. It was with this confidence that we worked up the enthusiasm on the part of the bankers in Chicago, New York, and Boston. We believed in the interest of Allies it was wise to offer both British and French bills simultaneously, but even today Bloch has not received instructions to sign, although Government has advised us that they would so instruct him. The result of this delay is that the bankers have cooled off; money rates have gone up somewhat, call money yesterday being 3½%, and we are in great quandry as to whether to issue now, as 30-day bills would mature at period when rates would be high and maturing bills would be presented for payment. Governments have not appreciated importance of 30-day bills which to us are so important to get the machinery started and the bankers interested that we are hesitating about starting with 60 day bills as shortest maturity. We expect to determine this in a day or two and if instructions from French Government in hand may decide to advise the banks and to put on counter early part of next week, as requirements are so great and we dare not delay even though rates will be higher. If we had been instructed to proceed at once we should have hoped by this time to have been well under way and on lower rates.

We are so perplexed and upset by attitude of French Government that we are sorely tempted to take position that we prefer that they do their financing elsewhere and their purchasing also. For your information, Bonbright, who should be protected in this matter, advised us this morning that he had received a cable from his Paris representative in which they state that French Government are much impressed with courage and quick action of Kuhn Loeb & Co., and that therefore Bonbright's representative suggests Bonbright confer with Kuhn Loeb & Co. regarding the French Railroad credits, which they have so long been considering. Bonbright replied before coming to us.

"Prefer not to confer with Kuhn Loeb & Co., whose belated courage is due to the improved situation and financial credit of Allies, due in turn to operations of other bankers, tried and proved friends of Allies."

Needless to say to you that we wish to keep our temper and to serve France at whatever cost of humiliation or trouble but wish you to consider whether it will not really be in the interest of the Allies if we inform France that we can no longer assume responsibility of endeavoring to provide her with funds. Our judgment here is that it might be wise for the Chancellor at once take up this matter with M. Ribot or Prime Minister with Briand and settle it definitely and finally, as our endeavors are not appreciated, but are really discouraged by the French Government. You so well understand whole situation and it is so important we want your judgment upon it.

Visit of H. P. Davison with Federal Reserve Board and with President of United States has impressed us with the very great responsibility we have before our own country. Therefore, shall we continue our endeavors with France with needless lack of support? In other words, in this cable, we are more than expressing our feelings; we are considering whether in perfect loyalty and friendliness to France we cannot advise her to look elsewhere. If not, we must be assured of more than soft words and kind expressions, and even so we cannot guarantee success to any degree. All we can guarantee is our continued endeavors in their behalf.

Again referring 26519. To repeat, we cannot possibly advise the issue of any loan now, but can only mark time relying as much as possible on the short-term bills and calling for gold to the extent necessary.

Will you please explain fully how the one thousand million referred to is made up. That is, just how much of it is gold and what is the general character of the securities. Further, please cable us total estimated requirements up to January 15th based upon Government exercising every proper means to postpone or lighten up such payments. In any event, we shall probably require gold shipments from Ottawa to begin again in the near future.—H. P. DAVISON—T. W. LAMONT.

MORGAN.

EXHIBIT No. 2589

16A/16AA/21/16ai

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 22, 1916.

[Copy of telegram despatched 12 : 30 p. m. to Morgan, London]

31499. Supplementing 31458, credit balance British Government Treasury account will be only $7,000,000 at close of business today. Anticipated payments tomorrow will completely exhaust and probably will require us to reopen no. 1 and no. 2 loan, reluctant as we are to do so so soon after the conclusion of last United Kingdom loan operation, being apprehensive as to sentimental effect upon banks and bankers in this market. On account of this last reason, we shall hold (for as long as possible) as much of no. 1 and 2 in our own portfolio as possible, notwithstanding this is opposed both to our own desires and to the wise suggestion of the Chancellor as expressed 26519. Nevertheless, for the moment we consider it as the lesser of the two evils. In view of all the foregoing, kindly cable instructions promptly to ship from Ottawa $25,000,000 gold and be prepared to ship a second $25,000,000 upon cable advice.

MORGAN.

EXHIBIT No. 2590

4-AK-2 66XXX/30*a*/66-3

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 23, 1916.

[Copy of telegram received 11 : 40 a. m. from Morgan, London]

26591. For H. P. Davison. Your 31458 raises very serious question. If Chancellor of the Exchequer cannot feel it probable that he can put out another loan between now and January 1st, he is in grave doubt whether he ought to proceed in exhausting his available gold and American securities, and matter would have to be subject of discussion in a Cabinet and possibly among all the Allies. Chancellor regards early issue of unsecured loan as of gravest importance.

I realize fully the discouragement of seeing the issues drag, and the difficulty of putting another one out immediately on top of the last, which has not yet been digested, but if there is any way in which it can be forced between now and January 1st I believe it is essential that it should be done. You of course understand that the issue of a loan within a very short time would not keep Chancellor from wanting another one, secured or unsecured, six weeks or two months from that time, and so on in series.

The immediately available resources are as follows:

Gold now in Ottawa, $100,000,000.

Gold now enroute to Ottawa or San Francisco, $48,000,000.

Russian gold in Vladivostock or on the way there, $100,000,000, which will be available in Ottawa by end of February.

Another $100,000,000 can be delivered at Vladivostock after end of the year and could also be available in Ottawa by end of February.

French gold, $170,000,000, in process of shipment at the rate of $20,000,000 a week.

You hold now American securities unpledged about $150,000,000; also whatever amount is placed temporarily under previous loans which will be released by deposit of other securities.

This makes in all, something over $500,000,000 of gold, without counting $140,000,000 of their own which might be put in if it was needed; and they claim about $350,000,000 of American securities now free or to be released.

There are $30,000,000 value of Canadian Pacific Ry. securities now in hand, and another $120,000,000 of these, he states, can easily be obtained, and steps are being taken to accomplish this.

You will see that this makes the $1,000,000,000.

In regard to the short bills, while I agree with you that it is to the interest to offer simultaneously French and British, hope you will proceed at once with the British since the French have delayed their part of it. I am sorry the rates have gone up, but do not consider that it is as important as placing some of the bills.

Sympathize strongly in your feeling in regard to the French attitude, and appreciate temptation you speak of. They are most difficult problem in the whole situation, but I hope that you will at any rate wait a few days before serving them with note, giving time should the Chancellor or the Prime Minister be able to do anything with the French Government. They are now discussing the question and will probably take a few days to make up their minds.

I very much fear that such action as you suggest in regard to France, while perfectly loyal and sound on our part, might very well produce friction between the Allies on what is already a rather tender point, which is of all things most important to avoid at present. I hope, therefore, that you can get along, at any rate until my return.

As to the amount required, Chancellor estimates between now and March 31st about $1,000,000,000.—J. P. MORGAN.

MORGAN.

EXHIBIT No. 2591

4AK2/66XXX/30a/66–3

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 23, 1916.

[Copy of telegram received 11:35 a. m. from Morgan, London]

26592. For H. P. Davison. Referring to my 26591. What the Government's position amounts to is simply this:

If Chancellor can borrow, partly on other than American securities, a reasonable amount between now and the end of the year he will face the future with some confidence and some assets left in hand. If, in order to pay the required amount between now and the middle of January, which would be, say, $450,000,000, he has got to use all or large part of his immediately available American assets, he feels that he should consider the whole subject on different lines, and go in much more for economy. This, of course, he does not want to do, because it might interfere with the progress of the war. It would also involve cancellation of contracts and all sorts of other troubles which I know we are all as anxious to avoid as he is.—J. P. MORGAN.

MORGAN.

EXHIBIT No. 2592

4AK2.

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 23, 1916.

[Copy of telegram despatched 9:30 p. m. to Morgan, London]

31592. For J. P. Morgan. 26591. 26592. We are greatly concerned over situation as outlined, for we were under the impression that gold at Ottawa and immediately available was much greater and sufficient to act as a larger cushion. Will study situation in detail and reply more fully tomorrow. Meanwhile:

1. We are able to offer no encouragement whatsoever in regard to any new issue, either secured or unsecured, prior to January 1st. Not only are present issues draggy but you will recall that it is the period of the year when money works close with banking institutions all over the country. If immediately after the first of the year we find that situation has changed, you, of course, can rely upon our making every effort; but to attempt another issue before January 1st, unless there is a radical change for the better in the situation, which we do not anticipate, would be to invite failure and discredit. For the time being we fear the Chancellor must dismiss completely from his mind any thought of this.

2. We are proceeding as rapidly as we can with the exchequer bills, but frankly, while we hope that ultimately this will be source of handsome revenue, we do not, as already stated, believe that within the next 90 days, this will be likely to furnish any large amount of exchange. This fear is emphasized by higher rates for money now beginning to prevail, and much more important by the distinctly antagonistic attitude of the Federal Reserve Board, which met with Advisory Council in Washington, D. C., yesterday, and let it clearly be known that it did not look with favor upon member banks investing in these bills. It seems hardly probable that Federal Reserve Board will issue any statement on this point, but its views as thus privately expressed are already becoming widely disseminated.

3. As to requirements aggregating, [say] $450,000,000 between now and January 15th, the only certain method of caring for same is—

(A) By the speeding up of gold shipments, which is of vital importance, not only so as to use metal itself, but because of sentimental effect upon domestic bankers; this also applying to the French gold, every effort to increase which should be made, and

(B) The release of American securities now temporarily placed under United Kingdom first and second loans, such securities so pledged amounting approximately to $186,000,000, including Canadian Pacific Railway as per 26429.

4. You state the Chancellor's view is that, if he must pursue plan as just set forth, he must then reconsider whole subject with a view to rigid economy. Serious as such a step would be, we can see nothing else to be done with the situation as it is over here today. You state that Chancellor is in grave doubt as to whether he ought to proceed in using up his available quick assets over here, yet it seems to us that there is no alternative, always provided the total amount to meet is as large as stated and provided further that exchequer bill resources are, as we apprehend, not likely to be large for the present.

5. With possibility of another issue in the immediate future entirely remote, we see no way of handling except by the using of all available gold and by the operation of numbers 1 and 2 demand loans for the balance. This will undoubtedly result in utilizing more of our own balances than the Chancellor and we desire, but we see no other way out of it. We have today started both 1 and 2 loans, making the rate 5%, this in view of materially higher money rates now prevailing here.

6. Every effort should be made to hasten negotiations on British municipals and to exhaust every other possible resource in a class akin to Alabama N. O. T. & P. Junctions, Atlantic leased lines, Cuban railways, etc.

Also we hope something will be worked out of conference with Sir Thomas Shaughnessy on Canadian Pacific financing in which if business could be shaped along lines satisfactory to this market, we might do 50 million to 100 million dollars. Are prepared also, if authorities wish to see whether we could handle obligations of colonies, such as Australia or South Africa of character similar to special bonds pledged for loan no. 2.

7. Chancellor has always discouraged our suggestion that we arrange for commercial drawings on a large scale here, feeling being that this would not suit British commercial interests. It seems to us at the present critical juncture that this is a step which must be seriously and immediately considered on the other side. As commercial interests we had in mind would be Vickers, Armstrong, and others acting in close harmony with Government. We should consider that authorities could arrange that they should finance their purchases of material here by drawing on group we would hope to form to accept their bills with renewals for total period of say one year's time. Even assuming that these people already have necessary funds abroad, against which to draw, Government could guarantee them against loss in exchange during period of bills and give them as inducement whatever profit might result from possible higher exchange rates at end of 12 months. We believe this business could be arranged quickly if we were authorized to proceed. Federal Reserve bank has indicated that such British commercial acceptances would be encouraged here by board and this is a point too important to be ignored.

NOTE.—Pencil notations enclosed in brackets.

8. As to French, we will refrain from any present hint of [our] real feelings, and all things considered agree it is better for the time being to try to worry along with the status quo.

A.
MORGAN.

EXHIBIT No. 2593

4AK2

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 24, '16.

[Copy of telegram received 8 : 45 p. m. from Morgan, London]

26659. 31592. One. Believe Chancellor of the Exchequer understands your position and, while he must of necessity have the desire for a loan, realizes that it cannot be obtained before the turn of the year.

Two. Am rather disturbed by attitude of Federal Reserve Board. Do not understand their objection, since bills seem to be certain of payment and as good as anything could be. Moreover, I thought that under the law member banks and Federal Reserve banks also were permitted to invest in Government obligations. Sorry I was not present in Washington to discuss it with them a little, although presumably Paul Warburg's opinion would be sufficient against it.

Three. They are releasing American securities quite rapidly now and will continue as fast as possible. They do not think they can ship gold any quicker than has been indicated to you, but will do their best, difficulty being due to transport.

Six. Negotiations on British municipals are being hastened. We are today informed that London and Glasgow have agreed in principle and will push negotiations as quickly as possible.

Junctions.—First meeting yesterday voted in favor of transaction, so believe that will now go ahead as expected.

Atlantic leased lines.—Find directors still impossible, though if your bid of £1,610,000 could be made a firm bid, think Treasury pressure would be brought.

Other propositions still very sketchy. Do not quite understand your reference to "Lord Shaughnessy", as negotiations have been superseded by issue of $40,000,000, fresh debenture stock to Treasury. Both Australia, South Africa would be perfectly ready borrow in your market in dollars, which would suit the Treasury here very well. This would be in addition to special large pieces pledged for loan no. two, of which there would probably be equal amount in same form for loan no. three. It is also suggested loan to India might be liked; if so, this could undoubtedly be arranged.

Seven. Authorities do not like the idea very much; nevertheless, in order to ease the load at the moment, believe they would be quite willing and could arrange with firms such as Vickers, Ltd., Armstrong Cammel, Harland & Wolff, Ltd., Browns. As I understand it, the state of the case is as follows: These firms take from British Government raw materials purchased in the United States, particularly steel which is purchased for them by us as representing the Ministry of Munitions of War. When the finished product is made, the firms receive payment and in turn pay for the raw material. If the British Government were willing to accept payment in bills on New York City drawn under such credits as you have indicated and would get the firms mentioned to take out such credits, seems to me these would be pure commercial bills and as such be eligible for the Federal Reserve Bank. If this is the operation as you understand it and you think it could be worked out on your side, cable again and we will see about it. We should want to know also what sort of amount you think of. The idea of the authorities is that it would not be very large, because they could not justify beyond amount of goods bought for those firms.

Eight. As regards this very difficult French position, am very grateful and very glad that you will get along best way we can. Believe authorities here will try to help us out in this very difficult point.—J. P. MORGAN.

MORGAN.

NOTE.—Pencil notations enclosed in brackets.

EXHIBIT No. 2594

16AO/4AG 12A
226AD/230A 171 37

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 25, 1916.

[Copy of telegram despatched 7 p. m. to Morgan, London]

31674. 26659. Attitude of the Federal Reserve Board of course most disappointing. The technical question of the rights of member banks to invest is not the real question at all. The Board is simply doing everything in its power unofficially to discourage such investment. Federal Reserve Board advised H. P. Davison that the twelve Federal Reserve banks may not buy new Treasury bills.

Atlantic leased lines.—We should not have suggested amount of £1,610,000 unless we felt likely that business could be closed at that figure. Directors were so antagonistic last spring that we considered it would be needless effort to make firm bid unless convinced that authorities would take necessary steps. Position here would require forming of large syndicate and fresh negotiations with Erie, and it would be impossible without some tangible figure.

As to Canadian Pacific Railway, we had in mind the purchase by the company of their sterling debenture stock and the reissue of this amount in dollars here with a definite due date and with some slight alterations in instruments securing debenture stock, so that it would conform to practice here without making any change as regards payments required prior to common stock dividends. Memorandum upon this subject was submitted to governor. We can also handle Algoma Branch five's if provision were made to pay in dollars—see 31167.

Will take up Australia and South Africa next week and see if we can arrange anything, but do not believe India feasible as yet.

7. The creation of commercial bills eligible for Federal Reserve bank is what we had in mind. If shells and forgings, steel, powder, explosives, fuses, etc., are now being delivered to private firms to be manufactured into completed shells or assembled as the case may be, would it be feasible for arrangements to be made whereby such private firms would take delivery here of various articles which would be invoiced against them, although delivered under contracts heretofore closed with Government, idea being that no change in present centralization of buying should be made, but that after contracts were closed by us delivery would be made to individual contractors? If this were feasible might also extend to copper being delivered to private firms. Our thought was that such English firms might draw their bills payable in dollars for period of 3 months with arrangements made for renewals, we to form group here to accept and use proceeds in payment for material as required. It seems doubtful whether if such bills were drawn by firms and given to British Government in payment for materials purchased and invoiced to British Government they would come within scope of Federal Reserve bank paper, but wish to consider this point more carefully before making definite suggestions.

This whole question is, of course, a very important one for Government to consider, and as stated we do not mean to suggest any change in existing methods for concentrated buying. Would it be necessary to limit bills drawn to extent amount of goods bought for each firm. It would seem to us, for example, Armstrong could assume liability for indeterminate amount of material contracted for by Government, Armstrong paying for it here by proceeds of bills drawn on and accepted by banking group here, Armstrong in turn selling to Governments such materials as were not needed for its own requirements and receiving payment from Governments either in form of sterling bills or sterling cash.

Associates not available, today being Saturday; will confer on this point Monday and cable again.

MORGAN.

AMA.

EXHIBIT NO. 2595

16AO/66XXX/66,^{3}/49^a

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Oct. 20, '16.

[Copy of telegram despatched 11 : 30 p. m. to Morgan, London]

29260. 24615. For J. P. Morgan. It is not altogether easy to explain why we have deemed it wise to delay organization of A and B Corporation. It has, perhaps, been not so much logic as instinct, both Dwight and I having exactly the same feeling. For instance, we have been most anxious to see steady absorption of United Kingdom and Royals continue and to do nothing that would serve to interfere with that. Market and sentiment seems surprisingly sensitive, witness reaction after Mr. Sabin's peace talk after U-boat exploit, and yesterday after premature loan talk which drove United Kingdom notes from 99⅝ to 99⅛. Of course, we have had enough experience to know that we are able to discount somewhat the apprehensions of even our wisest associates, yet it is clear from what they say and from our own knowledge that the one thing that deters people from investing is the expectation or fear that something else is coming along immediately which may be a little better, but we do not want you to gain the impression that we are failing to give grave consideration to some plan for supplying what ought to be a strong banking demand for short-time maturities. To this end, we desire to lay before you for serious discussion the following plan:

First.—Let us try to market within a reasonable period by selling them over the counter, say, $300,000,000 of British Exchequer bills running anywhere from 60 days to one year and assorted over various maturities in whatever way we might determine at the time of sale.

Second.—Let these bills be secured not by any indenture or trustee, but at most by formal statement from this firm that we had allocated between $350,000,000 and $400,000,000 of American and neutral securities against these bills. If, when we get closer to the operation, which, of course, would not begin until the new loan is out of the way, we found that we could peddle out bills unsecured and even without any reference to security, then so much the better, but we do not deem that probable.

Third.—We believe that whatever amount of bills we could sell within the next three or four months, even if it were up to the sum mentioned, we could keep afloat during the balance of the war, but in order to assure keeping these bills out, we would plan to form banking syndicate for two years, of say $120,000,000, being 40% of the whole amount. Such margin ought to be ample to take care of any amount of bills that might not be from time to time renewed. If, owing to cataclysmic conditions, such margin proved insufficient, then of course for any slack Government would have to ship gold, but such contingency would, we think, be remote. Banking syndicate to receive commission, say, of 2% per annum, upon its commitment of $120,000,000 as stated.

Fourth.—The daily rates at which we should mark these bills would have to be left to our discretion, but under present money conditions they ought to average under 5%, so that even with syndicate commission referred to, interest cost to Government should be very satisfactory.

Fifth.—If and when banking syndicate is called upon to take up maturing bills, then such syndicate should receive credit at the Bank of England for amounts so taken up at the current rate of exchange at the time of taking up, Bank of England paying 6% upon such deposits; then, as the market came in and bought further exchequer bills, these credits would be liquidated.

Sixth.—Possibly there might be a credit remaining at end of two-year period, at which time Government would take up all outstanding notes, or, if syndicate so elected, would give the syndicate credit at the Bank of England at the current rate of exchange, syndicate to have the right for a further period of 6 months to liquidate that credit in the open market, or, at the expiraion of six months, to receive dollars at the same rate of exchange at which the credit was established on the books.

Seventh.—Of course, these last features are to provide some speculation in exchange for the banking syndicate. We believe that it would be very difficult to organize such syndicate simply upon the basis of underwriting commission and that to bring about success we must add some such feature as has been outlined. Even so, we anticipate total cost to Government would be moderate. We should receive, of course, reasonable commission for organizing syndicate and some small brokerage day by day for handling bills.

Eighth.—The chief points in the foregoing plan constitute an elaboration of what F. A. Vanderlip has suggested to you. We have not sounded banking community at all in this proposition, preferring to secure your views and approval of Government, but it appeals to us as on the whole preferable to the immediate organization of A and B Corporation.—T. W. LAMONT—D. W. MORROW.

MORGAN.

EXHIBIT No. 2596

66/65
16A01

[Copy of telegram despatched 11:30 p. m. to Morgan, London]

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 20, 1916.

31415. For J. P. Morgan. In view of interference on the part of Federal Reserve Board with French acceptance credit, we thought it very important that I should see them, so spent three hours with them Saturday morning, result of which was not satisfactory. Their attitude towards Treasury bills is not encouraging. However, they gave me to understand they would take no steps at this time and would confer with me before doing so, should they decide to make statement. Afterwards had an interview with Woodrow Wilson which was altogether cordial and rather more encouraging, but on the whole my trip to Washington does not increase my hopes for easy future financing. However, no use speculating this subject; only thing we can do is to continue to do our best.—H. P. DAVISON.

MORGAN.

EXHIBIT No. 2597

61

[Copy of telegram despatched 11:30 a. m. to Ministere des Finances pour Harjes, Paris]

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 20, 1916.

14807. For H. H. Harjes. In conversation with President of United States Saturday he asked me what percentage present external debt is of total debt of France. I have been emphasizing the difference between external and internal debt, and therefore wish to know as definitely and officially as possible relation in percentage between the two. Therefore, if you can, please quote the Minister of Finance.—H. P. DAVISON.

MORGAN.

EXHIBIT No. 2598

65B

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 20, 1916.

[Copy of telegram despatched (11:30 a. m. to Morgan, London]

31394. For E. C. Grenfell. In conversation with President of United States Saturday he asked me what percentage present external debt is of total debt of Great Britain. I have been emphasizing the difference between external and internal debt and therefore wish to know as definitely and officially as possible relation in percentage between the two. Therefore, if you can, please quote the Chancellor of the Exchequer.—H. P. DAVISON.

MORGAN.

EXHIBIT No. 2599

65B

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 21, 1916.

[Copy of telegram received 9:35 a. m. from Morgan, London]

26530. 31394. For H. P. Davison. Chancellor thinks President United States may like to know that external debt of Great Britain on November 18, 1916, was approximately £225,000,000, being about 7% of total debt. Revenue for current year estimated at £500,000,000.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2600

65B

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 21, 1916.

[Copy of telegram despatched (6:30 p. m.) to Morgan, London]

31452. For E. C. Grenfell. 26530. Thanks. Will advise President. Assume revenue to be that of Government. Can you give me estimated revenue of Government, including people?—H. P. DAVISON.

MORGAN.

HPD.

EXHIBIT No. 2601

65B

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 23, 1916.

[Copy of telegram received 10:25 a. m. from Morgan, London]

26596. 31452. For H. P. Davison. £500,000,000 referred to is budget revenue of British Government for current year. No recent official estimate of national income, but upon the basis of calculations made by expert statisticians Chancellor puts normal income at about £2,500,000,000, and income at present time, owing to high prices and profits, considerably higher.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2602

61

[Copy of telegram received 11 p. m. from Harjes, Paris. H. P. Davison, care Morgan, N. Y.]

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 23, '16.

18381. 14807. Minister of Finance has handed me following statement: "The interior debt of France amounts in round figures to Fcs. 57,500,000,000, without taking into account the loan of the Banque de France of Fcs. 6,400,000,000, or the national defense bonds and notes, amounting to Fcs. 12,000,000,000. The total exterior debt is Fcs. 5,925,000,000, of which Fcs. 1,813,000,000 in the United States and Fcs. 3,960,000,000 in England. The proportion of the exterior debt to the total debt is 7.8%, taking into account the loan of the Banque de France, as well as the bonds and notes of the defense nationale."

Thanks your 14828. Refer J. P. Morgan cable 18285 and your 14691 to J. P. Morgan: Can you give me some definite answer as to whether securities mentioned should be called up by the Minister of Finance with the idea of including them in any future collateral loan, or give me some expression of views as to an early or later issue of a straight loan.—H. H. HARJES.

HARJES.

EXHIBIT No. 2603

[Excerpt of letter]

FEDERAL RESERVE BOARD,
Washington, November 23, 1916.

DEAR STRONG: I have just finished dictating a letter to Mr. Treman, in which I give him the meat of our last conference with the Advisory Council and also of our meeting with Mr. Davison, who was here last Saturday.

As you know, there has been going on quite an active press compaign, the object of which was to show that unless we granted foreign credits quite freely the country ran the risk of being choked with gold, with the attendant consequences of inflation of prices and credits.

Mr. Davison came over last Saturday and had a talk with the Board and expanded upon this theory. He advised the Board that Morgan's had planned to offer $100,000,000 of British bonds payable in dollars which were to mature in scattered maturities falling between three months and one year, it being apparently the plan to arrange the maturities so that $10,000,000 would mature each week and then be renewed, which would indicate, as he did not deny, that, provided the banks would take it, they would follow this first issue with others and place here about $500,000,000 of these exchequer bonds When these would have been placed, of course, they might consider the placing of more. But, for the time being he said, the British Government would not want to place more than a weekly maturity of $10,000,000.

Davison took the point of view that they only wanted to do what was good for the country, but that the British Government was buying about $10,000,000 worth a day, and if we did not place these loans we were taking the responsibility of cutting down the trade of the country—a very serious responsibility as we were now in a fair way of becoming the masters of the world. The more we stimulated this trade, and the more loans we made to these foreign countries, the more would we increase our predominance.

Governor Harding (who had taken the precaution during these last weeks to place himself in touch with the leading authorities in questions of foreign policy in order to be sure that we were acting in fullest accord with what generally would be considered the best interest of the country) pointed out to Mr. Davison that there was some danger of a creditor becoming so much involved with one debtor that finally, no matter whether the creditor wanted to or not, he would have to go in deeper and deeper. In other words, while you thought you had the bull by the tail, as a matter of fact the bull had you by the tail. In this case, it is *John* Bull who would have us by the tail.

England has now outstanding in short loans an amount which must be as large as between one and two billions of pounds. How these are to be funded, nobody knows. England's per capita debt next year will have multiplied by seven as against the beginning of the war. The continuation of the war, therefore, appears madness, and as long as nobody knows how long this madness will last there is no saying in what condition Europe will be when the war ceases. The feeling generally appears to be breaking through here at Washington (and I think also amongst a substantial part of the cooler elements of the country) that the end of this war will be a draw; that the sooner it ends the better; and that continuing the war means only a needless and fruitless sacrifice of life and treasure. To think that this war must go on to keep our trade going is an abomination. To think that it ought to be the duty of the Government or the Federal Reserve Board to prevent disastrous economic consequences by prolonging it is unjustifiable. And we said to Mr. Davison that it was the general feeling that we had grown enough and that we should be in a position of contemplating the "breaking out" of peace without a thought of alarm; that to our mind it was better to let this extraordinary trade gradually go down to more nearly normal proportions than to have it stop with a vengeance.

Davison himself said that he thought there were $500,000,000 or $800,000,000 of first class American securities which were held back which we might still receive in payment of goods that we are sending. We all feel that the export trade would not stop at once but would possibly take smaller proportions and that England would pay for it with our securities and maybe, to a certain extent, with shipments of gold.

As long as Europe sells us secured investments and as long as the investors take them there is no harm done. Altogether, we do not feel that we have the duty of protecting the investor; but we are concerned in the strength of the banking situation, and it was generally felt that these exchequer bonds, while they were made up in a form which made them appear self-liquidating, were as a matter of fact what in the aggregate would constitute a lockup of the funds of our banks and in the end would probably have to be turned into long term bonds. When the war is over, it may or may not be good policy to grant these long term and unsecured foreign loans, but we feel that first we should know whether and when and how the war will be over.

As to the gold danger, the Board feels that there are many ways in which it can be dealt with. We have $700,000,000 of national bank notes which could be withdrawn if our gold circulation should increase too fast. We have greenbacks the gold cover of which could be provided very acceptably. We have a Government that will have to borrow sooner or later and might come into the market and borrow at this time in order to lock up the gold. We could induce our member banks, either by voluntary agreement or by law, temporarily to keep higher reserves. And, finally, we could, as a beginning, advance the date of November 1917, so as to compel our reserve transfers early next year. The latter proposition appeared to appeal to Davison, who, on the whole, placed himself in a position of only wanting to do what was best for the country, and it was very satisfactory to us that the Advisory Council had independently reached the same conclusions as to the general situation.

Forgan stated that they were all down to the lowest point of reserves. In New England the strongest banks are rediscounting quite freely with the Federal Reserve bank. In New York we have noticed that, in spite of the increase of the acceptance rate, we are getting our material quite freely, and, while it is true that our gold holdings have increased, our loan pyramid has increased in proportion; and while our cash reserve in 1914 was 12.8 it is now 13.6, so that, as a matter of fact, we are where we were and there is serious danger in letting the thought go out that it is safe for us to pump into our financial structure a dose of one half a billion or a billion of self perpetuating foreign bonds.

The discussion with Davison was very pleasant and led to no definite conclusions, which I believe he wanted to avoid. He understood, however, our point of view. While he pointed out to us that we had a duty to finance this trade, he could not answer us when we pointed out that we were financing ten days according to his own statement and that he could figure out for himself the tremendous amounts that this country would have to take in foreign loans if his argument were to prevail that this trade ought to be continued indefinitely and by all means by continuing loans. He answered that, of course, they would not go beyond a reasonable amount, but I believe we have lost what was our standard for what is reasonable and what unreasonable; and, moreover, the further we go the more difficult it will be to stop.

Men like Wing, Rue, Forgan, and Fleishhacker all shared these views, and as to the foreign acceptance credits they went in their recommendation even further than the Board wishes to go. They recommended that these acceptances should not be purchased in the open market while they might be taken when necessary as rediscounts from member banks. They all felt that in this question of acceptances the Board had acted splendidly, even though they apparently felt we had not gone quite far enough.

I know that there are two sides to the arguments. It is not an easy matter at this time to decide what is right or wrong, but apparently the general consensus of opinion is getting around to the point of view that we should not overdo this foreign business at this time and that the harm would not lie so much in the influx of gold as in the over stimulation of our trade leading to enormously increased prices, thereby increasing the volume of credits with the entire chain of increased cost of living, wages, etc.

I could write volumes about this without being able to exhaust the subject, but for fear of exhausting myself and my stenographic staff, I better stop.

Always cordially yours,

(Signed) PAUL M. WARBURG.

BENJ. STRONG, Jr., Esq.,
4100 Montview Boulevard, Denver, Colorado.
Enc.

Exhibit No. 2604

Federal Reserve Board,
Washington, November 27, 1916.

Dear Mr. President: Will you permit me to thank you for your memorandum and to say that the Board has strengthened its statement somewhat and that it will be given to the press for publication tomorrow morning.

I enclose a copy of the revised statement with the new matter underlined.

Respectfully yours,

(Signed) W. P. G. Harding.

The President,
The White House.

STATEMENT FOR THE PRESS

November 27, 1916.

The Federal Reserve Board today made public the following statement relating to foreign credits, which is to appear in the next issue of the Federal Reserve Bulletin:

* * * * * * *

In view of contradictory reports which have appeared in the press regarding its attitude toward the purchasing by banks in this country of Treasury bills of foreign governments, the Board deems it a duty to define its position clearly. In making this statement the Board desires to disclaim any intention of discussing the finances or of reflecting upon the financial stability of any nation, but wishes it understood that it seeks to deal only with general principles which affect all alike.

The Board does not share the view frequently expressed of late that further importations of large amounts of gold must of necessity prove a source of danger or disturbance to this country. That danger, the Board believes, will arise only in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansions and of inflation. There are means, however, of controlling accessions of gold by proper and voluntary cooperation of the banks, or if need be by legislative enactment. An important step in this direction would be the anticipation of the final transfer of reserves contemplated by the Federal Reserve Act to become effective on November 16, 1917. This date could be advanced to February or March 1917. Member banks would then be placed on the permanent basis of their reserve requirements and fictitious reserves would then disappear and the banks have a clearer conception of actual reserve and financial conditions. It will then appear that while a large increase in the country's gold holdings has taken place, the expansion of loans and deposits has been such that there will not remain any excess of reserves, apart from the important reserve loaning power of the Federal Reserve banks.

In these circumstances the Board feels that member banks should pursue a policy of keeping themselves liquid; of not loaning down to the legal limit, but of maintaining an excess of reserves—not with reserve agents, where their balances are loaned out and constitute no actual reserve, but in their own vaults or preferably with their Federal Reserve banks. The Board believes that at this time banks should proceed with much caution in locking up their funds in long-term obligations or in investments, which are short term in form or name but which, either by contract or through force of circumstances, may in the aggregate have to be renewed until normal conditions return. The Board does not undertake to forecast probabilities or to specify circumstances which may become important factors in determining future conditions. Its concern and responsibility lies primarily with the banking situation. If, however, our banking institutions have to intervene because foreign securities are offered faster than they can be absorbed by investors—that is, their depositors—an element would be introduced into the situation which, if not kept under control, would tend toward instability, and ultimate injury to the economic development of this country. The natural absorbing power of the investment market supplies an important regulator of the volume of our sales to foreign countries in excess of the goods that they send us. The from which the most recent borrowing is taking, apart from reference to its intrinsic merits, makes it appear particularly attractive as a banking investment. The Board, as a matter of fact, understands that it is expected to place it primarily with banks. In fact, it would appear so attractive that unless a broader and national point of view be adopted individual banks might easily be tempted to invest in it to such an extent that the banking resources of this country employed in this manner might run into many hundreds of millions of dollars. While the loans may be short in form, and severally, may be collected at maturity, the object of the borrower must be to attempt to renew them collectively, with the result that the aggregate amount placed here will remain until such time as it may be advantageously converted into a long-term obligation. It would, therefore, seem as a consequence that liquid funds of our banks, which should be available for short credit facilities to our merchants, manufacturers, and farmers, would be exposed to the danger of being absorbed for other purposes to a disproportionate degree, especially in view of the fact that many of our banks and trust companies are already carrying substantial amounts of foreign obligations and of acceptances which they are under agreement to renew. The Board deems it, therefore, its duty to caution the member banks that it does not regard it in the interest of the country at this time that they invest in foreign treasury bills of this character.

The Board does not consider that it is called upon to advise private investors, but as the United States is fast becoming the banker of foreign countries in all parts of the world, it takes occasion to suggest that the investor should receive full and authoritative data—particularly in the case of unsecured loans—in order that he may judge the future intelligently in the light of present conditions and in conjunction with the economic developments of the past.

The United States has now attained a position of wealth and of international financial power, which, in the natural course of events, it could not have reached for a generation. We must be careful not to impair this position of strength and independence. While it is true that a slowing down in the purpose of credit extension may mean some curtailment of our abnormally stimulated export trade to certain countries, we need not fear that our business will fall off precipitately should we become more conservative in the matter of investing in loans, because there are still hundreds of millions of our own and foreign securities held abroad which our investors would be glad to take over, and, moreover, trade can be stimulated in other directions.

In the opinion of the Board, it is the duty of our banks to remain liquid in order that they may be able to continue to respond to our home requirements, the nature and scope of which none can foresee, and in order that our present economic and financial strength may be maintained when, at the end of the war, we shall wish to do our full share in the work of international reconstruction and development which will then lie ahead of use, and when a clearer understanding of economic conditions as they will then exist, will enable this country more safely and intelligently to do its proper part in the financial rehabilitation of the world.

* * * * * * *

("Exhibit No. 2605" appears in text on p. 8552)

Exhibit No. 2606

[File copy]

November 24, 1916.

BRITISH GOVERNMENT TREASURY BILLS—FRENCH GOVERNMENT TREASURY BILLS

Seward Prosser, Esq.,
Vice President Bankers Trust Company,
16 Wall Street, New York, N. Y.

Dear Sir: We have completed arrangements respectively with the British and French Governments whereby we shall be in a position, on December 1st, to supply for investment, Treasury bills of the two respective Governments, in the form of the specimen note attached hereto, which is substantially along the lines of New York City revenue bills.

All purchases of bills are to be made for payment and delivery at our office, and the bills when due and payable will be repayable here.

As will be noted, these bills are payable in New York, in dollars. They will have maturities ranging from thirty days to six months, the discount rates for the different maturities to be fixed by us from time to time in accordance with prevailing money conditions. We shall plan to offer these bills at an attractive basis, as compared with current money rates for similar maturities.

We believe that these Government bills furnish an unusual and a desirable form of short-term investment for banking institutions, possessing many of the same advantages that have rendered New York City revenue bills attractive.

The initial discount rates, for delivery of bills on or about December 1st, will be as follows:

	Percent
30 day bills	4
60 day bills	4¼
90 day bills	4½
4 months bills	4½
6 months bills	4¾

While these rates are to be subject to change without notice, we shall plan to keep you advised as to any change in the discount rates. If this form of investment appeals to you for your institution or for your correspondents, we shall be glad to keep in touch with you and furnish any further information you may desire.

Yours very truly,

——— ———.

Enclosure.
TWL/JXC.

EXHIBIT NO. 2607

[Telegram]

NOVEMBER 25, 1916.

FRANK B. ANDERSON,
President, Bank of California, N. A.,
San Francisco, California.

We have completed arrangements with British and French Governments whereby we shall be in position on December 1st to supply for investment Treasury bills of respective Governments of character similar to New York City revenue bills. Bills will be payable in New York in dollars and will have maturities ranging from thirty days to six months the discount rates for the different maturities to be fixed by us from time to time in accordance prevailing money conditions. We plan to offer bills at attractive basis compared with current money rates. Initial discount rates for delivery of bills about December 1st will vary probably from 4 to 4¾% depending on maturity. If you agree with us this is attractive business we shall be glad to have you co-operate by bringing notes to attention your principal correspondent institutions and we shall be glad to keep you advised of changes in discount rates from time to time. This suggestion is being sent only to [certain] banks in New York, Boston, Chicago, and San Francisco, where we are also communicating with Fleishhacker, and possibly in St. Louis.

H. P. DAVISON.

NOTE.—Pencil notations enclosed in brackets.

EXHIBIT NO. 2608

16A01

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 27, 1916.

[Copy of telegram despatched 1:30 p. m. to Morgan, London]

31728. Following is text of statement issued publicly late this afternoon by Federal Reserve Board as reported to us by telegraph from Washington, D. C.:

"In view of contradictory reports which have appeared in the press regarding the committee's attitude toward purchasing by the banks in this country of treasury bills of foreign governments, the Board deems it a duty to define its position clearly. In making this statement, the Board desires to disclaim any intention of discussing the finances or of reflecting upon the financial stability of any nation, but wishes it understood that it seeks to deal with general principles which affect all alike.

"The Board does not appreciate the view freely expressed of late that further importations of large amounts of gold must of necessity prove a source of danger or disturbance to this country. That danger the Board believes will arise only in case the inflowing gold should remain uncontrolled and be permitted to become the basis of undesirable loan expansion and of inflation. There are means, however, of controlling accessions of gold by proper and voluntary co-operation of the banks, or if need be, by legislative enactment. An important step in this direction would be the anticipation of the final transfer of reserves contemplated by the Federal Reserve Act to become effective on November 16th, 1917. This date could be advanced to February or March 1917. Member banks would then be placed on the permanent basis of their reserve requirements and fictitious reserves would then disappear and the banks have a clearer conception of actual reserve and financial conditions. It will then appear that while a large increase in the country's gold holdings has taken place, the expansion of loans and deposits has been such that there will not remain any excess of reserves apart from the important reserve loaning power of the Federal Reserve banks.

"In these circumstances, the Board feels that member banks should pursue a policy of keeping themselves liquid, of not loaning down to the legal limit but of maintaining an excess of reserves, not with reserve agents where their balances are loaned out and constitute no actual reserve but in their own vaults or preferably with their Federal Reserve banks. The Board believes that at this time banks should proceed with much caution in locking up their funds in long term obligations or in investments which are short term in form or name, but which, either by contract or through force of circumstances, may in the aggregate have to be renewed until normal conditions return. The Board does not undertake to forecast probabilities or to specify circumstances which may become important factors in determining future conditions. This concern and responsibility lies primarily with the banking situation. If, however, our banking institutions have to intervene because foreign securities are offered faster than they can be absorbed by investors—that is, by depositors—an element would be introduced into the situation which, if not kept under control, would tend toward ultimate injury to the economic development of this country. The natural absorbing power of the investment market supplies an important regulator of the volume of our sales to foreign countries in excess of the goods they send us. As to the [latest] form of borrowing, the Board as a matter of fact understands that it is expected to place it primarily with the banks. In fact, it would appear so attractive that unless a broader point of view be adopted individual bankers might easily be tempted to invest in it to such extent that the banking resources in this country employed in this manner might run into many hundreds of millions of dollars.

"While the loans may be short in form and severally may be collected at maturity, the object of the borrower must be to attempt to renew them collectively, with the result that the aggregate amount placed here will remain until such time as it may be advantageously converted into a long term obligation. It would therefore seem as a consequence that liquid funds of our banks which should be available for short credit facilities to our merchants, manufacturers, and farmers, would be exposed to the danger of being absorbed for other purposes to a disproportionate degree, especially in view of the fact that many of our banks and trust companies are already carrying substantial amounts of foreign obligations and of acceptances which they are under agreement to renew. The Board deems it therefore its duty to caution the member banks that it does not regard it in the interest of the country at this time that they invest in foreign treasury bills of this character.

"The Board does not consider that it is called upon to advise private investors, but as the United State is fast becoming the banker of foreign countries in all parts of the world it takes occasion to suggest that the investor should receive full and authoritative data, particularly in the case of unsecured loans, in order that he may judge the future intelligently in the light of present conditions and in conjunction with economic developments of the past. The United States has now attained a position of wealth and international financial power which, in the natural course of events, it could not have reached for generations, and we must be careful not to impair this position of strength and independence. We need not fear that our business will fall off perceptibly should we become more conservative in the matter of investing in loans, because there are still hundreds of millions of our own and foreign securities held abroad which our investors should be glad to take over and, moreover, trade can be stimulated in other directions.

"In the opinion of the Board, it is the duty of our banks to remain liquid in order that they may be able to continue to respond to our home requirements, the nature and scope of which none can foresee, and in order that our present economic and financial strength may be maintained when at the end of the war we shall wish to do our full share in the work of international reconstruction and development which will then lie ahead of us and when a clearer understanding of economic conditions as they will then exist will enable this country more safely [and intelligently] to do its proper part in the financial rehabilitation of the world."

Impossible to forecast effect upon banks and upon investors of public statement of this kind. It will certainly add greatly to difficulties of any new borrowings and may result in some liquidation of existing loans. We will cable fully after effect can be observed. Meanwhile, suggest that you expedite in every way possible release of Americans temporarily deposited to the end they may be readily usable.

For your information, Federal Reserve Board composed of seven members, Secretary of Treasury, Comptrollers of Currency, ex-officio. By many, including ourselves, Board is thought to be dominated by Paul Warburg, whose former family affiliations with German bankers you know. He was formerly of the firm of Kuhn, Loeb, & Co., married, we believe, daughter of one of firm, and is brother of Felix Warburg, present member of that firm.

MORGAN.

AMA.

NOTE.—Pencil notations enclosed in brackets.

EXHIBIT No. 2609

16–AO'/16AS'/30A/8.4/106

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 28, 1916.

[Copy of telegram despatched 12:15 a. m. to Morgan, London]

3177S. For E. C. Grenfell. Statement of Federal Reserve Board cabled you last night prominently displayed in our newspapers all over country and has caused great excitement in financial circles here. Comment is to effect that Board has gone far beyond its proper function in attempting to advise individual American investors to refrain from foreign loans. At a meeting of several prominent bankers this morning it was expressed opinion of all that statement is product of a certain gentleman who hopes that his efforts will be effective in forwarding peace propaganda being made by his native country. Regardless of the motives lying back of statement, we must recognize this as the most serious financial development in this country since the outbreak of the war and one likely to be of far-reaching consequence. Please make this fact plain to the authorities so that they may consider whole situation in its grave aspects. All foreign loans were under pressure today, the Anglo-French fives declining to 94¼ and interest, the United Kingdom two year 5% to 98 13/16 and interest, the three year 5½% to 99 and interest, and the 5 year 5½% to 98⅛ and interest. The city of Paris 6% were the weakest and at their low point of 96⅜ and interest were off over 1% from yesterday's close. They closed slightly up at 97 as against issue price of 98¾. The American Foreign Securities Co. notes declined ¼%.

For your information we plan to carry out programme of having British and French Treasury bills available for sale December 1st, but in view of

Federal Reserve Board statement are convinced that sales will be negligible at any rate at start.

For practical purposes Chancellor of the Exchequer must, in his calculations, disregard Treasury bills entirely, relying for his future requirements until situation radically changes upon his available supplies of gold and American securities for, as he must realize, this weighty statement from Government banking heads expressly requesting American investors to refrain from buying Allied obligations, postpones by still further period possibility of any new British, French, or Allied loan here. Of course, situation may change, but at present outlook is very dark, and we should now doubt whether it would be possible even to consider any fresh loan operation of importance until well after the turn of the year. Every effort, as you must realize, will be made by us and our associates by educational processes to counteract throughout the country statement just issued, but we have got to begin at the bottom of the hill once more and it will be a long slow process with very much depending upon future attitude of our authorities. Meanwhile, we can see no way except for your authorities to consider ways and means for immediate curtailment of purchases letting such action be announced without rancour but explicitly with possible good effect upon American attitude. Furthermore, we consider it absolutely essential that gold shipments be expedited and that for moral effect every publicity consistent with safety be given. You have indicated that transport difficulties interfered, but we deem it vital that attempt be made to overcome them. We think it would have excellent effect if one or two warships from France were to bring over gold direct to New York City. Exchange situation is, of course, very grave and we have bought for you today almost £4,000,000 of exchange. We cannot, of course, maintain this pace even for a few days. We will cable you again on this particular aspect referring to the guaranty of exchange on American deposits in London.

We wish this cable to make clear the fact that despite our most strenuous efforts this Federal Reserve Board statement has brought about such a radical change for the worse in the whole situation that from this time on until further notice, authorities must rely for their requirements solely upon their gold, their American securities, and the various special deals along lines of railway shares and the others that we have already discussed. Despite the heavy pressure that has been put upon English investors we believe that we have now reached the time when every possible available source of exchange, no matter how disagreeable for us and you to contemplate, must be used and that with all promptitude. You will find us most co-operative and eager in every direction, but we must ask you to realize that for the time being our hands are almost completely tied. Any suggestion or plan that you may have to offer will, you may be assured, be availed of to the limit of our ability.

MORGAN.

EXHIBIT No. 2610

16A1

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 28, 1916.

[Copy of telegram despatched 12:30 p. m. to Ministere des Finances, pour Harjes, Paris]

14882. 18405. The effect of the Federal Reserve Board ruling is still to be determined, but our belief is that it will make investors scrutinize collateral more carefully than before, and we doubt whether Indo China securities or Royal Dutch Co. would be well received. We strongly recommend taking the most radical measures to secure the remaining available amounts of issues pledged in American foreign securities loan, particularly bringing pressure on the American securities which may still be held in France.

Since the despatch of your cable the situation has gravely changed for the worse by issue of Federal Reserve Board statement which has caused great excitement here, and effect of which is to discourage American investors of every kind from buying Allied loans. We have had conference today with Casenave and Bloch, and they quite agree with us that any attempt now to forecast time for another operation whether secured or unsecured is impossible. We will keep you in touch with situation, but regret to say we regard it as more difficult and ominous than ever before. You appreciate that in this whole very difficult situation we are giving our almost undivided attention to the possibility of raising loans for the Allies, and if we do not advocate proceeding it is because our judgment is against the feasibility of such operation. For your information the new French municipals offered by Kuhn, Loeb & Co. are said to be going very badly.

MORGAN.

AMA.

EXHIBIT No. 2611

16AO

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 28, 1916.

[Copy of telegram received 6:40 p. m. from Morgan, London]

26758. Have communicated your long cable 31728 as regards Federal Reserve Board to Governor and Chancellor who of course feel very disturbed thereat, especially as they see in it evidence of control which Mr. Paul Warburg and his associates appear to have at Washington.

We await further information from you as regards the effect which announcement has had upon existing loans, short paper, and commercial acceptances.—E. C. GRENFELL.

MORGAN

EXHIBIT No. 2612

[Telegram]

NOVEMBER 28, 1916.

[Pencil notation: Treasury bills.]

Telegram to be sent to attached list of names:

Referring our recent letter initial rates for delivery of bills on December first will be as follows: Four and one half percent for thirty day, sixty day, and ninety day bills, four and three quarters percent for the four months bills; and five percent for six months bills. These rates will be subject to variation from time to time to meet prevailing conditions. We believe we have made it hitherto clear that these bills call for payment at maturity and are not subject to renewal.

J. P. MORGAN & Co.

NOVEMBER 28, 1916.

To Western Union Telegraph Co.:

Kindly send attached telegram to each of the following:

At Chicago:
    Continental & Commercial National Bank
    Continental & Commercial Trust & Savings Bank
    First National Bank
    First Trust & Savings Bank
    Central Trust Co. of Illinois
    Harris Trust & Savings Bank
    Merchants Loan & Trust Co.
    Illinois Trust & Savings Bank
At Boston:
    First National Bank
    Merchants National Bank
    National Shawmut Bank
    Old Colony Trust Co.
    Second National Bank
At San Francisco:
    Anglo & London Paris National Bank

J. P. MORGAN & Co.

EXHIBIT No. 2613

16 AO/30*a*/84/106/372*aa*

[Copy of telegram received 5:58 from Morgan, London]

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 29, 1916.

26810. Have fully discussed the very serious contents of your 31778 with Chancellor of the Exchequer and Governor, who have taken up question with Cabinet committee.

One. Cabinet regards such a statement as that issued by the Federal Reserve Board in relation to Government [Br.] Treasury bills, as being the action of the United States Government, in that the Secretary of Treasury, and the Controller, are members of the Board. Chancellor accordingly sent you formal cable no. 26788. British Government is communicating upon the subject with Sir Cecil Spring-Rice.

Whilst I have impressed upon the Ministers the fact that the Federal Reserve Board is not directly a Government committee, yet our Ministers adhere to their view and consider it more dignified to take action in concert with the other Allied Governments.

Your statement that the British and French Treasury bills will not sell to any extent is not the main factor in the Government's decision.

Two. As regards your statement that authorities must consider curtailment of purchases, they feel the full necessity of this, but they think that any announcement with regard to such action should be made in a dignified manner by the Allied Governments. Such action will take some days as it is necessary to communicate with the other Allies. Please do not inform anyone that British Government is communicating upon this subject with the other Allies.

Three. With regard to the very large purchases of exchange, we shall be glad of course to have your views as to whether this is a speculative exchange operation, or whether it is probably engineered by the Schiff, Speyer, and other German houses.

Four. I fully understood that J. P. Morgan & Co. cannot go on advancing indefinitely themselves, but wish to know if there is any difficulty in your getting accommodation against American securities from other banks, as you have done before. Chancellor assures me that gold position is as follows:

In Ottawa.—Out of the $25,000,000 for which you have received authority to call $17,000,000, for which you will call through us if you require it $120,000,000.

En route Atlantic.—$20,000,000.

Pacific.—$10,000,000.

Total in Ottawa and en route $167,000,000.

French.—Now in England ready for shipment $80,000,000. To come during December to England for shipment $90,000,000. In all $337,000,000. He states you have $150,000,000 free American securities with further $255,000,000 which he hopes to release from the securities pledged under collateral loans.

Do you see any difficulty in making or getting advances against these to meet payments during coming month?

Five. Authorities do not see any way to guarantee the exchange on the American deposits in London, nor do they think this would be effective in view of the rise in the value of money in New York City, as compared to London.

Six. Chancellor and I are most conscious of the strain we are putting upon you and are very grateful for your efforts.

I shall be glad to know whether you are in communication with the partners of Kuhn, Loeb & Co. and what view Kahn and other pro-Ally members of the firm take as regards Paul Warburg's action.

What is the position as regards Kuhn, Loeb & Co.'s issue of French municipalities.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2614

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 29, 1916.

16 AO

[Copy of telegram received 4:21 p. m. from Morgan, London]

26788. Chancellor of the Exchequer sends you following message:

(Begins) In view of the attitude of the Federal Reserve Board towards the issue of Treasury bills by us in the U. S. A., I am now telegraphing to Monsieur Ribot, French Minister of Finance, that we propose, if he concurs, to refrain from proceeding with the issue. (Ends.)

Futher message will follow from E. C. Grenfell.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2615

16 AO/84

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 29, 1916.

[Copy of telegram despatched 11:50 p. m. to Morgan, London]

31843. 26788. Your 26810 received so late this evening that only part of it read over telephone, so will only reply today to the inquiry regarding sales of exchange, which we believe is through more or less natural channels, due to the fear of a break in exchange. We do not believe that it is manoeuvered or inspired. Tomorrow holiday. Will give consideration to remainder of cable, and reply some time tomorrow.—H. P. DAVISON.

MORGAN.

EXHIBIT No. 2616

30

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 29, 1916.

[Copy of telegram despatched 6:30 p. m. to Min. Fin. Harjes, Paris]

14889. Neither we nor M. Bloch have received authority to sign Treasury bills, and inasmuch as they are subject to issue Friday of this week, it is necessary that immediately you should cable M. Bloch and ourselves authorizing him to sign on behalf of Government and notifying us of that arrangement. See 14781.

Further, Ribot has cabled approving form of Treasury bills, but never excepting through Mr. Morgan, has he specifically authorized us to proceed with the sale. Kindly obtain written authority on this matter and have same cabled to us.

Also, we ought to have from Ribot, as we already have from the British Chancellor, a general statement to the effect that France will have in our hands sufficient gold from time to time to take up such maturities as are presented for payment, and as are not replaced by fresh purchases.

MORGAN.

TWL.

EXHIBIT No. 2617

30

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York. Nov. 30, 1916,
[Rec'd Dec. 1st, 1916.]

[Copy of telegram received 8:04 a. m. from Harjes, Paris]

18421. 14889. M. Ribot has cabled full authorization to-day to Bloch for the signature of Treasury bills. Minister of Finance has handed us following letter addressed to you:

(Translation begins): I have the honor to authorize you by the present to issue until further notice under the same conditions as for the British Government, French Treasury bills with maturities not exceeding one-year. You will kindly advise me every Saturday through Morgan, Harjes & Co. the amount you will have issued and placed of each category of bills. You will give the same information to the French Financial Agency in New York City. It goes without saying that I will take the necessary steps to place at the proper time in your hands the provision in gold dollars which the reimbursement of the bills issued by you may require in accordance with this general authorization to the extent by which the amounts maturing exceed the amount of the new bills placed through you. (End of translation.)

We trust the above covers to your entire satisfaction the whole situation. Your 14878, 14882. We are anxiously awaiting to hear from you what is effect on general situation. We find that apart from the prevailing feeling of apprehension caused here by the point of view set out in the Federal Reserve Board's statement that what strikes everyone most painfully is the significance of the cynically arbitrary manner of the form in which the statement is expressed.

HARJES.

EXHIBIT No. 2618

16–AO'/16ai/30A/49A/84/106

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 30, 1916.

[Copy of telegram despatched 9:30 p. m. to Morgan, London]

31844. For E. C. Grenfell. 26788. Before formally withdrawing Treasury bills from sale we will await word from you that Ribot concurs. We then suggest making announcement, and propose for your consideration a form substantially as follows:

Begins: "The Governments of Great Britain and France have asked us to make the following announcement: The sale of Treasury bills of the two respective Governments, payable in dollars in New York City, had never been an essential part of the Governments' financial plans, but had been for some time under consideration with a view to furnishing a credit medium that would accommodate the American banking demand for an instrument of short maturity, and of such limited volume that the Governments could always undertake to lay down gold in New York sufficient to meet maturing bills. Inasmuch, however, as this suggestion has manifestly failed to meet the approval of the Federal Reserve Board, a governmental body upon which both the Secretary of Treasury and the Comptroller of the Currency have seats, the Governments of Great Britain and France have, after conference, both decided to withdraw completely the limited amount of their Treasury bills which they had hitherto authorized sold." Ends.

If it would be preferable for Government to make no direct statement but for us to put the foregoing into indirect discourse as representing, through ourselves as medium, the informal views of Government that can readily be arranged.

26810. One. We think your position as outlined both dignified and strong. Sentiment here is that Sir Cecil Spring-Rice has ample ground for strong protest.

Two. We agree that this is subject to be handled most carefully. We must remember that all Allies will probably wish to secure large further credits in United States, and if Allies' statement as to curtailing purchases were in form to be construed here as a threat your credit position would be still further imperilled. You will pardon suggestion, but perhaps before making any statement on this point your authorities will wish to submit it to us for comment.

Three. Our opinion is unchanged from our 31843. We think chief selling probably arises from holders of deposit balances in London who fear further fall in exchange.

Four. Although situation is rendered somewhat difficult by reason of higher money rates, still we are confident that we can arrange sufficient credits with outside banks to extent that American collateral is available, and to this end we might utilize A. and B. Corporation. But if our exchange purchases continue at anything like pace of last two days, namely, thirty million, you can see where we shall land.

As to gold, you give no precise time as to when this will be available. We had figured from your last cable outlining gold position that by end of February there would be total gold available of about $650,000,000. May we ask you to co-ordinate that cable and 26788 so that we shall be clearer on this vital point of shipments. We see no great difficulty in handling payments during coming month.

Five. We hope sharp rise in money here is temporary, though it is likely to rule stronger than in last six months. We figure that only hope of maintaining in London bulk of present American deposits is to guarantee exchange and are disappointed that authorities do not think feasible. If rates ease off here somewhat, as we think not unlikely, guarantee of exchange in deposits ought to be effective. Is there no way to this end?

Six. Thank you.

Seven. Not in close touch with Kuhn, Loeb & Co. Both Otto Kahn and Mortimer L. Schiff are outspoken for Allies, but just where they really stand it is hard to know. Paris loan off almost point and half from issue; three new muncipalities almost point off. In this last operation underwriters will, counting in their subscriptions, be obliged to take up about one-half of issue, and Kuhn, Loeb & Co. will not exercise option on remaining balance of sixty million.

In general, our chief concern is not as to the next ninety days, but as to the situation thereafter. There are payments for purchases through us alone of $1,300,000,000 in next five months. These are not subject to any great extent to cancellation. They may be augmented by day-by-day purchases unless you let up completely on these. We realize subject is so complex and vast that you cannot at once give any indication of your policy for long future, but whatever it may be we must begin as soon a possible to shape matters here to your ends.

While action of Federal Reserve Board has been heavy blow, and is likely to be far reaching in future as well as immediate operations, yet we are by no means without strong hope that by end of February situation will have changed sufficiently to enable us to take up in earnest again consideration of fresh collateral loan. And we plan to continue steadily work of education and preparation. It would be short sighted of us not to give you the picture, but you must not for a moment gain the idea that we consider outlook as impossible even though we cannot see far ahead.

MORGAN.

EXHIBIT No. 2619

16AO

[Copy of telegram received 8 : 30 a. m. from Morgan, London]

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 30, 1916,
[Rec'd Dec. 1, 1916.]

26827. Chancellor would not wish to disregard the expressed wishes of the Federal Reserve Board of which Secretary of Treasury is a member and, therefore, requests Messrs. J. P. Morgan & Co. not to issue the Treasury bills as arranged on December 1st. Former is statement made to me by Chancellor of the Exchequer. Will this provide basis for any explanation you may have to make?—E. C. Grenfell.

MORGAN.

EXHIBIT No. 2620

12/1/16.

J. P. Morgan & Co. issue the following statement:

"We have been instructed by the British and French Governments to withdraw their Treasury bills from sale. We have accordingly expressed to those institutions and investors, which had already placed orders with us for these securities, the wish to be released from our obligation to deliver; and they have been good enough to accede.

"This action is taken because, as explained by the British Chancellor of the Exchequer and by the French Minister of Finance, these Governments desire to show every regard to the Federal Reserve Board, a governmental body of which the Secretary of the Treasury and the Comptroller of the Currency are ex-officio members.

"We may add that the sale in limited amount of these Treasury bills, payable in dollars in New York, had never been an essential part of the Allied Governments' financial plans but had for some time been under consideration, with a view to furnishing a credit medium that would accommodate the American banking demand for an instrument of short maturity, and of such limited volume that the Governments could always undertake to lay down gold in New York sufficient to meet maturing bills.

"It was believed further that these bills would have furnished, at the end of the war, an excellent measure of protection to the American financing situation inasmuch as these steadily maturing obligations of the foreign governments would have tended to prevent heavy drafts of gold from this market."

DEC. 1, 1916.

EXHIBIT No. 2621

30

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 1, 1916.

[Copy of telegram despatched 12 : 45 p. m. to Ministere de Finances pour Harjes, Paris]

14898. 18421. Authorization as to issuance of Treasury bills as forwarded by M. Ribot through you is entirely satisfactory. Thank you. We are, however, today issuing to the press the following:

Quote: "We have been instructed by the British and French Governments to withdraw their Treasury bills from sale. We have accordingly expressed to those institutions and investors which had already placed orders with us for these securities the wish to be released from our obligation to deliver and they have been good enough to accede. This action is taken because, as explained by the British Chancellor of the Exchequer and by the French Minister of Finance, these Governments desire to show every regard to the Federal Reserve Board, a governmental body of which the Secretary of Treasury and the Comptroller of Currency are ex-officio members.

"We may add that the sale in limited amount of these Treasury bills, payable in dollars in New York City, had never been an essential part of the

Allied Governments' financial plans, but had for some time been under consideration with a view to furnishing a credit medium that would accommodate the American banking demand for an instrument of short maturity and of such limited volume that the Governments could always undertake to lay down gold in New York City sufficient to meet maturing bills.

"It was believed, further, that these bills would have furnished at the end of the war an excellent measure of protection to the American financial situation inasmuch as these steadily maturing obligations of the foreign Governments would have tended to prevent heavy drafts of gold from this market." End quote.

We trust this will meet with the unqualified approval of Minister of Finance, as we are confident it would if he were informed as to conditions here. We justified statement insofar as French Government is concerned—

First. Upon the fact that the British Government had definitely authorized us to make a statement on their account, and that they had communicated with M. Ribot suggesting that French Government join.

Second. We are in receipt of an unofficial cable from London to the effect that no official communication had reached London, but unofficially our house there was informed that French Government were in accord.

Third. In your 18421, you state "Under same conditions as for the British Government."

Fourth. It was necessary to make the statement today, as we had previously announced the bills would be offered today and had made conditional sales which we either had to fill or cancel today, and as it was necessary to make the statement, it would, in our opinion, have been most unfortunate to have made it for the British Government and not for the French as well.

For your information, we communicated by telephone with M. Bloch, who was in Washington, D. C., acquainting him with the situation but ourselves assuming all the responsibility of the statement. It is unnecessary to assure you that never will we take a step of this kind without the fullest authority except in such an emergency, as we regard exists today. We will appreciate the approval of M. Ribot of our action.

We cannot at this time give you general effect of the statement, but insofar as we have learned it is regarded most favorably and characteristic in dignity and strength of both Governments. There is a strong undertone of disapproval of the statement of the Federal Reserve Board, and it is within range of possibility that a benefit may yet be realized out of their position and it may develop a public sentiment which will make itself strongly felt in favor of further and better financing

There is a rumor that the Federal Reserve Board are this afternoon making an additional statement to clarify their previous one. If statement is made, we will advise you of its contents. It is difficult to express calmly our views of the general situation caused by the statement of the Federal Reserve Board, which gave to the public at large an entirely erroneous impression as to the proposed sale of French and British Treasury bills. We believe that the action of the Board is ill-advised, and that they have taken it without due regard to the interests of the American commercial and investment world. There is, however, no use crying over spilt milk. We must start afresh and do all that we can to show the public the facts as to the undoubted soundness of the Government obligations of France and Great Britain. Of course, this action has for the moment put a complete estoppel upon any credit activities, but you may rest assured that we will renew our active efforts at the first possible moment.—H. P. DAVISON—T. W. LAMONT.)

MORGAN.

EXHIBIT NO. 2622

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J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Dec. 4, '16.

[Copy of telegram received 10:05 p. m. from Harjes, Paris]

18435. For H. P. Davison and T. W. Lamont. 14898. Ribot is greatly upset over your action in this matter and is quite unable to understand how you took upon yourselves to speak authoritatively for him as you did without even getting his views upon the subject, let alone his consent. The question as to whether issue of Treasury bills should have been withdrawn or not, does not disturb him so much as, although your 14889 and your whole attitude as reflected by your other cables was to the effect that the issue was to take place irrespective of the statement of the Federal Reserve Board, and also, although opinion over here was in favor of proceeding with the matter, it is conceded that it is possible that something may have arisen to have made you change your mind. but what appears incomprehensible is the form and wording of your public statement to the press, particularly in view of the disapproval of the French Ambassador in Washington, which Ribot hears by cable was transmitted to you by M. Bloch, who at the same time suggested to you another form which the Ambassador considered desirable and which you apparently brushed aside.

As to the points you raise as justifying your statement regarding the French Government, we are informed that point one does not reflect what actually transpired between the two Governments, as the British Government only apparently asked the French Government(s) opinion ~~in~~ upon the subject and did not actually suggest to it to join in authorizing you to make a statement on their account.

Point two seems absolutely incomprehensible as no French representative was authorized even unofficially to communicate with Morgan, Grenfell & Co. upon the subject.

Point four. The feeling is, as previously expressed, that any statement should have been made in conformity with the suggestions of the representative of the French Government in America unless and until a complete understanding had been arrived at directly with the Government here. Exception is taken particularly to that part of the statement which says "This action is taken because as explained by the British Chancellor of the Exchequer and by the French Minister of Finance, these governments desire to show every regard to the Federal Reserve Board, a governmental body of which the Secretary of Treasury and the Comptroller of Currency are ex officio members." Contrary to your view, it is not at all considered by authorities here as characteristic of the dignity and strength of both governments. Minister of Finance therefore very much regrets the incident. For your information and with view to helping you understand the feeling over here, we would say that, when your 14878 was received announcing the statement of the Federal Reserve Board. Ribot at once communicated with London, suggesting that it would be well for both governments to consult together as to what steps should be taken.—H. H. HARJES.

HARJES.

EXHIBIT No. 2623

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Dec. 9, 1916.

30

[Copy of telegram despatched 6:00 p. m. to Ministere des Finances pour Harjes, Paris]

14965. For H. H. Harjes. Upon my return find your 18435. Matter of course enormously important, and will require certain amount of study on my part before the cable can be answered. In the meantime hope you will express to M. Ribot our sincere regret that anything we have done should have disturbed him. For your own information, you will see, of course, after such cable from him we must study our position with great care.—J. P. MORGAN.

MORGAN.

EXHIBIT No. 2624

30

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Dec. 11, 1916.

[Copy of telegram received 6:40 p. m. from Harjes, Paris]

18470. For J. P. Morgan. Ribot thanks you for the message contained in your 14965, and he hopes you will consider the whole incident as closed.

HARJES.

EXHIBIT No. 2625

CABLES EXCHANGED BETWEEN KUHN, LOEB & CO., NEW YORK, AND M. M. WARBURG & CO., HAMBURG, REGARDING THE ISSUANCE OF CITIES OF HAMBURG, FRANKFORT, AND BERLIN BONDS

Received October 1, 1916: 11th telegram. Can you act for Hamburg Frankfort A/m in same way as for Paris.

Sent October 2, 1916: 27th telegram. Answering your 11th if exclusively for municipal purposes should only be too pleased provided syndicate can be formed and we can be certain that issue can be made successfully.

Sent October 6, 1916: Believe might possibly place Hamburg, Frankfort, Berlin, preferably last, 6% ten-year bonds dollars or marks at twenty cents with first three years interest remaining here if for municipal purposes only and Government agrees to furnish gold if needed to enable payments.

Received October 8, 1916: 22nd telegram. Replying your cable number 27, both friends guarantee to use money exclusively as indicated by you. Wire on what terms you would be ready to close business.

Sent October 11, 1916: 42nd. Telegraphed our suggestions already before receipt number 22, but with renewed difficulties since created, matter must be postponed for present.

Received October 18, 1916: 42nd telegram. Received your telegram number 42, and suggestions mentioned therein to which agree in principle; please telegraph at once as soon as transaction feasible again what amount and exact conditions. For several reasons very anxious to carry it through, especially since transaction with Paris concluded.

Sent October 20, 1916: 54th telegram. With existing sentiment not feasible in our opinion to do anything just now, but we ought perhaps to be placed in position to proceed whenever proper moment arrives, which will not be so long as submarine situation may bring relations to crisis over night. While we cannot now forsee when we can likely proceed, we shall do our best at suitable moment, if authority be given to us, to take fifty million dollars, six-percent ten-year bonds, either all Berlin or twenty-five million Berlin, twelve one-half million Frankfurt, twelve one-half million Hamburg, at ninety percent, half firm half option, other terms as stated in our former cables.

Received November 8, 1916: Shall probably be able authorize you to close fifty million dollars three friends only for purposes mentioned by you three years interest staying there half firm half option provided exchange 480 and increase purchase price some percent. Telegraph very best terms obtainable as very anxious to carry transaction through.

Sent November 8, 1916: 74th. To meet your wishes accept suggestion rate exchange four eighty but as to price it is most important to make tempting terms to syndicate and public. We might go to ninety-one but to reasonably assure success would prefer ninety. If on these terms we can have transaction on hand as intended for humanitarian and other municipal purposes we shall make best endeavors to complete it but this cannot be done while latest submarine question remains unsettled as our public as a prerequisite condition to success issue need feel that menace relations through submarine activity definitely removed.

Received December 6, 1916: 25. Think psychological moment come to carry through business with friends mentioned your advice 74 afraid otherwise others will do business. Have cabled you about this separately.

Received December 8, 1916: Yours number 74. You are authorized Frankfort and Hamburg twelve and a half each Berlin twenty-five six per cent ten year. Bonds half yearly coupons at ninety-two of which one half three months option other half firm. Four marks eighty, however, unsuitable can allow at the utmost M 4.40. We offer you, however, participation ten per cent of net profit of valuta three years interest staying there. The Government agrees to provide gold if needed. The proceeds are to be used exclusively for municipal purposes. What interest do you allow for credit balance that is not disposed of? I have no doubt that the political circumstances are satisfying for carrying business through for (us) as here best intentions. Please act at the earliest possible opportunity. I shall forward to you municipal statements and power of attorney at the earliest date. Greetings.

Sent December 8, 1916: Number 10. Federal Reserve Board having issued warning against further foreign financing at present and England and France having in consequence withdrawn imminent financing here it is impracticable for the time being to act upon your cable sent through embassy though your price and rates anyhow not feasible.

Received December 23, 1916: 51. Answering your no. 10 cable whether it not advisable to send you powers of attorney to be prepared for all events.

Sent December 27, 1916: 23. Answering your 51st as nothing foreign practicable for some time to come advise retaining powers.

[Copy—Letter sent to M. M. Warburg & Co., Hamburg]

64 DEC. 12, 1916.

DEAR SIRS: On the 8th of November we sent you, through Messrs. Ecourtant & Co.[1] our cable no. 74, to which we received your reply only on the 8th of December. At the same time we received your cables nos. 25 to 30, and we have replied to your proposals by our cable no. 10, which we sent you through Ecourtant & Co.

As you will probably be aware, the Federal Reserve Board has in the course of time which elapsed between the sending of our cable no. 74 and the arrival of your reply, issued a detailed statement, warning the banks of the United States against the further purchase of foreign government obligations, which, in the opinion of the Board, would not constitute a proper asset against deposits. In the same statement the Board cautioned also the public in respect to investment in such foreign obligations.

The result of this warning has been a marked one. The Governments of England and France, after issuance of the warning, have withdrawn the intended offer of Treasury bills in this market. The effect in our market, for foreign securities, has at the same time been exceedingly pronounced. Without exception the prices of these securities began to drop and the bonds of the Anglo-French loan fell as low as 92⅞, which places them on a 7⅛% basis.

The above events happened to coincide with a marked stringency in the money market. Call money went up to 15% and after a temporary reaction, rose again to 10% yesterday.

This disposition of the money market, together with the effect of the Federal Reserve Board's warning, has, of course, put a stop to all foreign financing for the time being and much to our regret, we were therefore compelled to inform you in our cable that it is impossible to conclude any transaction of the kind at present, even if your conditions would have made the business feasible in itself, which was not the case.

* * * * * * *

We thank you for the spirit of eagerness in which you have worked for the consummation of the transactions in question and you may rest assured that we, on our part, had the genuine wish to contribute to the conclusion of any of them, but under the prevailing, exceptionally adverse circumstances, any attempt at present would undoubtedly have met with a complete failure.

Believe us,

Yours very faithfully

(Signature) L. KEESING.

LK: H.

EXHIBIT NO. 2626

[From the House collection, custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

THE WHITE HOUSE,
Washington.

The PRESIDENT.

DEAR GOVERNOR: I am enclosing you a copy of a letter which has just come from Viscount Grey. It gives me an opportunity to write him whatever I wish.

Captain Gaunt is going to England Saturday, but this not to be known to anyone excepting the British Ambassador. There is some reason for secrecy.

Gaunt has caught a conversation between Bernstorff and a certain lady here. Bernstorff told her that they were trying to negotiate a loan in America, and when that was arranged they did not intend to pay further attention to America. This conversation is not mere hearsay.

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[1] (In pencil.) The German Embassy.

Baruch tells me that Kuhn, Loeb & Co. are preparing to make a loan to the German cities, just as they did some time ago to the French cities. Before doing it they want to be sure that our relations with Germany are satisfactory, otherwise they will refuse to go on. I am wondering what, if anything, you want done in regard to this.

Affectionately yours,

—— ——.

115 East 53rd Street,
New York.

November 23, 1916.

Exhibit No. 2627

[From the House collection, custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

The White House,
Washington.

My Dearest Friend: I have had a really overwhelming cold during nearly the whole of the week, and it has sadly thrown my plans out. The paper I had intended to write needed the clearest thinking I could do, and not until tonight have I ventured to begin it. Even now I have gone no further than a skeleton outline.

I wanted to make these suggestions:

First: That you convey to Kuhn, Loeb & Co. through Mr. Schiff, who would be sure of my personal friendship, the intimation that our relations with Germany are now in a very unsatisfactory and doubtful state, and that it would be most unwise at this time to risk a loan.

Second: That you write to Lord Grey in the strongest terms to the effect that he could be sure that the United States would go any length in promoting and lending her full might to a league for peace, and that her people were growing more and more impatient with the intolerable conditions of neutrality, their feeling as hot against Great Britain as it was at first against Germany and likely to grow still hotter against an indefinite continuation of the war, if no greater progress could be shown than now appears, either for the Allies or the Central Powers.

It might be well to intimate to him that Page no longer represents the feeling or the point of view of the United States any more than do the Americans resident in London.

I hope that these suggestions commend themselves to you. I do not think that he ought to be left in any degree of ignorance of the real state of our opinion. It might even be well to intimate that we, in common with the other neutral nations, look upon the continuation of the war through another winter with the utmost distaste and misgiving.

I am so sorry I am not to see you tomorrow, but it would be folly for me to risk the exposure at the present stage of my cold.

All join in affectionate messages.

Faithfully yours,

(Signed) Woodrow Wilson.

Mr. Edward M. House.

24 November, 1916.

Exhibit No. 2628

[From the House collection, custody of Prof. Charles Seymour, Yale University, New Haven, Conn.]

Diary—Dec. 3, 1916—308.

"Jusserand wished to know what he would cable his Government tomorrow to better matters. He promised to regard anything I told him as confidential except as to his Government. I suggested that he start by cabling them of the President's speech last night at the banquet in which he indicated strong sympathy for France and a leaning toward the Allies.

"(2) That we were trying to undo the harm which the Federal Reserve Board has done regarding their credits.

"(3) To say the President had warned Germany concerning U-boat activities in American waters.

"(4) This country was doing what it could to protect communications with the Allies and their communication with one another as well as with neutrals by holding down to a minimum the activities of U-boats.

"(5) The United States had practiced benevolent neutrality toward the Allies which the Allies in no way appreciated. We had gotten the enmity of Germany and had not received corresponding benefit from the Allies.

"Jusserand promised to embody all these suggestions in his cable."

("Exhibit No. 2629" appears in text on p. 8571)

EXHIBIT NO. 2630

66–XXX

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 22, 1916.

[Copy of telegram received 3 : 40 p. m. from Morgan, London]

28497. For J. P. Morgan. Refer to your cable 33653. The President's message has of course created a great deal of feeling here. The Treasury would be greatly obliged if you could cable your views as to how far the President's action will affect chances of a collateral loan in January.

I am in attendance here for cables during holidays.—E. C. GRENFELL.

MORGAN.

("Exhibit No. 2631" appears in text on p. 8571)

EXHIBIT NO. 2632

The following pencilled memo is attached:

Nov. 22, '16.

Laid on table for a full Board meeting.

L. A.

AGREEMENT WITH THE BANK OF ENGLAND

Nov. 23, 1916.

Memorandum for the Federal Reserve Board.

The executive committee, to which was referred the matter of a proposed contract between the Federal Reserve Bank of New York and the Bank of England authorizing the latter institution to act as agent for the Federal Reserve Bank in England, begs to make the following recommendations:

(1) That the Federal Reserve Bank of New York be authorized to ~~proceed with the negotiations on the general lines of the draft as submitted;~~ [establish an agency with the Bank of England in conformity with the terms and provisions of the Federal Reserve Act and to establish an account with said agency.]

~~(2) That such authorization, however, be given with the distinct understanding that no business is to be transacted under the contract, with the exception of purely routine operations necessary to put it into effect, until after the close of the European war now in progress, or until further authority is granted by the Federal Reserve Board.~~

Respectfully submitted,

(Sgd) W. P. G. HARDING,
(Sgd) PAUL M. WARBURG,
(Sgd) F. A. DELANO,
Executive Committee.

Exhibit No. 2633

861B

J. P. Morgan & Co.,
Export Department,
New York, Dec. 29, 1916.

[Copy of telegram despatched 10:20 p. m. to Min. des Fin. pour Harjes, Paris]

30141. 18572. Announcement is correct, but matter is almost simply routine, as Federal Reserve Bank of New York City applied sometime ago for permission appoint foreign agents. I think it quite probable Federal Reserve Board thought it was indicating pleasanter feeling by doing this now. Indeed, I think they feel they went much too far and did the wrong thing in the statement of November 28th and are casting about for ways of improving their position.

National City Bank has informed all its German clients it does not wish any activity in their accounts though of course clients are at liberty to dispose of amounts now to their credit. This was done entirely of their own motion, as Frank A. Vanderlip stated to me, because they thought accounts were being used to help German trading. He also said only result so far had been great activity in accounts of Swedish banks which they have, which they presume take the place of the German accounts which they have stopped, but as to this they do not think they can do anything.—J. P. Morgan.

Morgan.

("Exhibit No. 2634" appears in text on p. 8575)

Exhibit No. 2635

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917

SPECIAL LOAN TO MORGAN, GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.

Date	Description	Debit	Credit	Balance
1916 May 4	Cash transferred to special deposit account, Morgan, Grenfell & Co., account client	$300,000.00		[1] $300,000.00
May 5	C/tfr on London £720,000 at 4.76½; cables, $2.76	3,430,802.76		
	Balance transferred from special deposit account Morgan, Grenfell & Co., account client		$3,094.64	[1] 3,727,708.12
May 6	C/tfr on London, £160,000 at 4.76$\frac{7}{16}$; c/tfr on London, £150,000 at 4.76½; C/tfr on London, £150,000 at 4.76$\frac{7}{16}$; cables, $4.39	2,191,710.65		[1] 5,919,418.77
May 8	C/tfr on London, £270,000 at 4.76½; c/tfr on London, £375,000 at 4.76$\frac{7}{16}$; cables, $2.89	3,073,193.52		
	Participation of $2,000,000 ceded to First National Bank and participation of $2,000,000 ceded to National City Bank		4,000,000.00	[1] 4,992,612.29
May 9	C/tfr on London, £300,000 at 4.76$\frac{7}{16}$; cables, $2.26	1,429,314.76		
	Interest 1 day at 3½% on £110,000; c/tfr on Union of London and Smiths Bank bot for payment May 5 but paid May 6		50.96	[1] 6,421,876.09
May 10	C/tfr on London, £1,050,000 at 4.76$\frac{7}{16}$; cable, $5.14	5,002,598.90		
	Further participation of $2,000,000 ceded to First National Bank and further participation of $2,000,000 ceded National City Bank		4,000,000.00	[1] 7,424,474.99
May 11	C/tfr on London, £275,000 at 4.76$\frac{7}{16}$; cable, $2.26	1,310,205.39		
	Cash from U. S. assay office on account sovs. received from Ottawa		455,700.00	
	Cash from U. S. Subtreasury on account U. S. gold coin received from Ottawa		1,750,000.00	[1] 6,528,980.38
May 11	Interest 2 days at 3½% on £65,000 c/tfr on Commercial Bank of Scotland bot for payment May 6; paid May 8		60.21	6,528,920.17
May 12	C/tfr on London, £935,000 at 4.76$\frac{7}{16}$; cable, $3.13	4,454,693.77		
	Cash from U. S. assay office on account gold bullion received from Ottawa		1,815,000.00	[1] 9,168,613.94

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
May 13	C/tfr on London, £965,000 at 4.76$\frac{7}{16}$; cable, $3.38	$4,597,625.26		[1] $13,766,239.20
May 15	C/tfr on London, £410,000 at 4.76$\frac{7}{16}$; cables, $2.01	1,953,395.76		
	Interest 1 day at 3½% on £50,000 c/tfr on Lazard Bros. & Co. bot for payment May 10; paid May 11		$23.16	[1] 15,719,611.80
May 16	C/tfr on London, £785,000 at 4.76$\frac{7}{16}$; cable, $2.76	3,740,037.14		
	Interest 3½% on c/tfr on American Express Co., 1 day on £50,000 bot for payment May 9, paid May 10; 1 day on £50,000 bot for payment May 10, paid May 11; 1 day on £40,000 bot for payment May 12, paid May 13		64.84	[1] 19,359,584.10
May 17	C/tfr on London, £715,000 at 4.76$\frac{7}{16}$; cable, $2.26	3,406,530.39		
	Interest 1 day at 3½% on £320,000 c/tfr on Equitable Trust Co. due May 10, paid May 11; interest 1 day at 3½% on £115,000 c/tfr on Equitable Trust Co. due May 11, paid May 12		203.81	
Value May 16	Cash from U. S. assay office on account 111 bags gold bullion from Ottawa		2,150,000.00	
	Cash from U. S. assay office, balance account 26 bags sovs. deposited May 11, less amount paid Subtreasury for light weight coin		51,768.33	
May 17	Cash from U. S. assay office on account 100 bags gold bullion from Ottawa May 17		1,925,000.00	
	Interest 2 days at 3½% on £30,000 c/tfr on Commercial Bank of Scotland due May 13, paid May 15		27.79	
	Participation of $3,000,000 ceded National City Bank		3,000,000.00	[1] 15,739,114.56
May 18	Cash from U. S. assay office on account 100 bags gold bullion from Ottawa		1,908,000.00	[1] 13,831,114.56
May 19	Cash from U. S. assay office, final payment on 90 bags of gold bullion received May 12		23,976.66	[1] 13,807,137.90
May 22	Cash from U. S. assay office on account 100 bags gold bullion from Ottawa May 20		1,940,000.00	[1] 11,867,137.90
May 23	do		1,932,000.00	[1] 9,935,137.90
May 24	do		1,896,000.00	
	Repayment to National City Bank on account participation $1,000,000 c/tfr Equitable Trust Co., New York, £50,000 at 4.76$\frac{7}{16}$, $238,218.75	1,000,000.00		
	C/tfr International Banking Corp., £100,000; at 4.76⅜, $476,375.00; cables, $2.13	714,595.88		[1] 9,753,733.78
May 25	C/tfr at 4.76$\frac{7}{16}$; International Banking Corp., £180,000; London Joint Stock Bank, £50,000; Royal Bank of Canada, £50,000; Equitable Trust Co., New York, £150,000; Commercial Bank of Scotland, £70,000; cables, $2.64	2,382,190.14		
	Interest 2 days at 3½% c/tfr £150,000 on London City and Midland Bank both for payment May 6, paid May 8		138.96	
	Cash from U. S. assay office final settlement 111 bags bullion received May 11		253,086.98	
May 26	Repayment to National City Bank on account participation	1,000,000.00		
	Cash from U. S. assay office, final settlement 100 bags bullion received May 17		219,567.72	
	Cash from U. S. assay office on account 109 bags bullion from Ottawa, $2,067,000.00; less expenses on sundry shipments, $14,646.65		2,052,353.35	[1] 10,610,776.91
May 29	C/tfr at 4.76$\frac{7}{16}$; London City and Midland Bank, £75,000.00; International Banking Corp., £100,000; Bank of British North America, £40,000; American Express Co., £80,000; Equitable Trust Co., £100,000; cables, $2.63	1,881,930.76		
	Cash from U. S. assay office, final settlement 100 bags bullion received May 18		219,128.24	
	Cash from U. S. assay office on account 100 bags bullion from Ottawa		1,491,500.00	[1] 10,782,079.43
May 31	Cash from U. S. assay office on account 150 bags bullion from Ottawa		2,248,000.00	
	C/tfr Equitable Trust Co., £300,000 at 4.76$\frac{7}{16}$; c/tfr American Express Co., £40,000 at 4.76$\frac{7}{16}$; cables, $2.01	1,619,889.51		[1] 10,153,968.94

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
June 1	C/tfr Equitable Trust Co., £150,000 at 4.76$\frac{7}{16}$; c/tfr London, Midland & City Bank, £335,000 at 4.76$\frac{7}{16}$; cables, $1.89	$2,310,723.77		
	Cash from U. S. assay office, final payment for—			
	100 bags received May 20		$221,440.65	
	100 bags received May 23		221,588.66	
	Cash from U. S. assay office on account 250 bags bullion from Ottawa		3,286,000.00	[1] $8,735,663.40
June 2	C/tfr London City & Midland Bank, £125,000 at 4.76$\frac{7}{16}$; c/tfr chartered Bank of India, £25,000 at 4.76$\frac{7}{16}$; cables, $1.89	714,658.15		
Jun. 2	Interest on c/tfr on London City & Midland Bank, 1 day at 3½% on £170,000 bot for payment May 10, paid May 11		78.74	
	Cash from U. S. assay office on account 250 bags bullion received June 1		216,400.00	[1] 9,233,842.81
Jun. 5	C/tfr International Banking Corp., £100,000 at 4.76$\frac{7}{16}$; c/tfr, London City & Midland Bank, £20,000 at 4.76$\frac{7}{16}$; cable, $1.89	571,726.89		
	Cash from U. S. assay office, settlement 100 bags bullion received May 24		216,336.16	
	Cash from U. S. assay office on account 150 bags bullion received June 3		2,230,000.00	[1] 7,359,235.54
Jun. 6	C/tfr International Banking Corp., £100,000 at 4.76$\frac{7}{16}$; c/tfr Lloyds Bank, £60,000 at 4.76$\frac{7}{16}$; c/tfr Standard Bank of So. Africa, £20,000 at 4.76$\frac{7}{16}$; cables, $2.01	857,589.51		
	Cash from U. S. assay office on account 125 bags bullion from Ottawa		2,009,000.00	[1] 6,207,823.05
Jun. 7	Cash from U. S. assay office on account 250 bags bullion from Ottawa		4,071,900.00	[1] 2,135,923.05
Jun. 8	C/ftr Lloyds Bank Ltd., £35,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bank, £410,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bank, £100,000 at 4.76$\frac{7}{16}$; c/tfr Equitable Tr. Co., £230,000 at 4.76$\frac{7}{16}$; cables, $2.26	3,692,392.88		
	Cash from U. S. assay office on account 109 bags bullion received May 26		235,509.07	
	Cash from U. S. assay office on account 100 bags bullion received May 9		175,747.24	
Jun. 8	Cash from U. S. assay office on account 200 bags bullion from Ottawa, less expenses on $20,150,053.10=$15.139.55		3,227,560.45	
	Cash from U. S. assay office in settlement of 150 bags bullion received May 31		264,502.43	[1] 1,924,996.74
Jun. 9	C/tfr Farmers Loan & Trust Co., £75;000 at 4.76⅜; c/tfr at 4.76$\frac{7}{16}$; Equitable Trust Co., £550,000; London City & Midland Bank, £675,000; London Joint Stock Bank, £50,000; Lloyds Bank, £50,000; Guaranty Trust Co., £200,000; Royal Bank of Canada, £15,000; American Express Co., £100,000; cables, $3.89	8,170,860.14		[1] 10,095,856.88
Jun. 10	C/tfr at 4.76$\frac{7}{16}$; Equitable Trust Co., £350,000; London Joint Stock Bank, £25,000; London City & Midland Bank, £795,000; cables, $2.14	5,574,320.89		
	Interest on c/tfr Union of London & Smiths Bank, 1 day at 3½% on £10,000 bot for payment May 16, paid May 17		4.63	[1] 15,670,173.14
Jun. 12	C/tfr, London City & Midland Bank, £450,000 at 4.76$\frac{7}{16}$; c/tfr, International Banking Corp., £50,000 at 4.76$\frac{7}{16}$; cables, $1.89	2,382,189.39		
	Cash from U. S. subtreasury on account 200 boxes sovs. from Ottawa deposited in Philadelphia mint		4,760,000.00	
	Cash from U. S. assay office on settlemtn. for 300 bags bullion received June 1		410,686.35	[1] 12,881,676.18
Jun. 13	Interest on c/tfr Brown Shipley & Co., 1 day at 3½% on £25,000 bot for payment May 12, paid May 13		11.58	
	C/tfr Union of London & Smiths Bank, 1 day at 3½% on £220,000 bot for payment May 10, paid May 11		101.90	
Jun. 13	C/tfr at 4.76$\frac{7}{16}$: International Banking Corp., £250,000; London City & Midland Bank, £235,000; Lazard Bros. & Co., £100,000; London Joint Stock Bank, £50,000; Royal Bank of Canada, £50,000; Equitable Trust Co.. £50,000; Lloyds Bank, £20,000; cables, $5.52	3,597,108.65		[1] 16,478,671.35

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Jun. 14	C/tfr at 4.76 7/16: Lloyds Bank, Ltd., £50,000; Union of London & Smiths Bank, £100,000; International Banking Corp., £50,000; London City & Midland Bank, £150,000; London City & Midland Bank, £120,000; Equitable Trust Co., £710,000; cables, $2.76	$5,621,965.26		[1] $22,100,636.61
Jun. 15	C/tfr at 4.76 7/16: Equitable Trust Co., £200,000; Union of London & Smiths, £20,000; Standard Bank of So. Africa, £20,000; International Banking Corp., £50,000; Anglo So. American Bank, £25,000; London City & Midland Bank, £355,000; cables, $2.89	3,192,134.13		
	Cash from U. S. assay office, settlement 125 bags bullion received June 6		$52,926.76	
	Cash from U. S. assay office, settlement 150 bags bullion received June 3		261,894.65	
	Cash from U. S. subtreasury on account 200 boxes sovs deposited in Philadelphia mint less telegrams from Washington, D. C., $2		4,759,998.00	[1] 20,217,951.33
Jun. 16	C/tfr at 4.76 7/16: Equitable Trust Co., £200,000; London City & Midland Bank, £450,000; Farmers Loan & Trust Co., £100,000; International Banking Corporation £50,000; Lazard Bros. & Co., £40,000; London Joint Stock Bank, £25,000; Lloyds Bank, £20,000; cables, $3.01	4,216,474.89		[1] 24,434,426.22
June 16	Cash from U. S. assay office in settlement of 250 bags bullion received June 7th		108,583.06	
	Cash from U. S. subtreasury on account 200 boxes sovs deposited in Philadelphia Mint June 15th less cost of telegram $1.00		4,759,999.00	[1] 19,565,844.16
June 19	Cash from U. S. assay office on account of 100 boxes of bullion received from Ottawa June 17th		4,408,500.00	
	Cash from U. S. subtreasury on account 200 boxes sovs deposited in Philadelphia Mint June 17th less cost of telegram $1.00		4,759,999.00	[1] 10,397,345.16
June 20	Cable tfr at 4.76 7/16: Coml. Bk of Scotland, £20,000; London City & Midland Bank, £50,000; cables, $1.89	333,508.14		
	Cable tfr committee American Bankers paid Natl City Bank	1,125,000.00		[1] 11,855,853.30
June 20	Cash from British Govt. Treasury account		1,000,000.00	
	Cash from U. S. assay office in settlement of 200 bags of bullion received June 8th		85,188.95	
	Cash from U. S. assay office on account 100 boxes of bullion received from Ottawa less expressage on 4,000,000 £ sovs to Philadelphia $16,553.50		4,396,946.50	[1] 6,373,717.85
Jun. 22	Repayment to National City Bank, on account partn	1,000,000.00		
	Repayment to 1st National Bk., N. Y., on account partn	1,000,000.00		[1] 8,373,717.85
Jun. 22	Cash from U. S. assay office on account of 100 boxes bullion received from Ottawa		4,386,900.00	[1] 3,986,817.85
Jun. 23	Do		4,418,400.00	431,582.15
Jun. 23	C/tfr at 4.76 7/16: London City & Midland Bk., £200,000; Equitable Trust Co., £25,000; Union of London & Smith Bank, £25.000; Royal Bank of Canada, £20,000; American Express Company, £10,000; cables, $2.63	1,334,027.64		[1] 902,445.49
Jun. 23	Repayment to National City Bk. on account partn	1,000,000.00		
	Repayment to 1st National Bank, N. Y., on account partn	1,000,000.00		[1] 2,902,445.49
Jun. 24	Cable tfr at 4.76 7/16: Equitable Trust Co., £200,000; London Joint Stock Bank, £50,000; London City & Midland Bank, £675,000, cables, $2.38	4,407,049.26		[1] 7,309,494.75
Jun. 24	Cash from U.S. Subtreasury in settlement of 200 boxes sovs. deposited in Philadelphia Mint June 9th $96,638.49; June 13th $96,653.48		193,291.97	[1] 7,116,202.78
Jun. 26	C/tfr at 4.76 7/16: London City & Midland Bank, £475,000; Equitable Trust Co., £30,000; cables, $2.01	2,406,011.39		[1] 9,522,214.17
Jun. 26	Cash from U.S. assay office on account 150 boxes bullion received from Ottawa June 24th		3,734,800.00	[1] 5,787,414.17
Jun. 27	C/tfr at 4.76 7/16: London City & Midland Bank, £60,000; cables, $1.51	285,864.01		[1] 6,073,278.18

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Jun. 28	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £150,000; Equitable Trust Co., £100,000; cables, $1.76	$1,191,095.51		
	Interest on C/tfr London City & Midland Bank £200,000 1 day at 4% bot for payment, June 12, paid June 13		$105.87	
	Cash from U. S. Subtreasury on account 160 boxes bullion received from Ottawa June 27 and deposited in Philadelphia Mint less telegram $1		4,499,999.00	[1] $2,764,268.82
Jun. 29	C/tfr at 4.76$\frac{7}{16}$: Equitable Trust Co., £25,000; Standard Bank of South Africa, £10,000; Chartered Bank of India, Australia, & China, $50,000; London City & Midland Bank, £250,000; cables, $2.65	1,596,067.89		[1] 4,360,336.71
Jun. 30	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £110,000; Equitable Trust Co., £100,000; cables, $1.87	1,000,520.61		
	Payment on account participation to First National Bank	1,000,000.00		
	Payment on account participation National City Bank	1,000,000.00		[1] 7,360,857.32
Jul. 1	Interest to date at 4%	115,085.56		
	Cash from U. S. assay office in settlement:			
	200 boxes sovs. received June 15		96,215.26	
	200 boxes sovs. received June 17		97,356.01	
	Cash from U. S. Subtreasury on account 200 boxes bullion received from Ottawa June 28, and deposited in Philadelphia Mint		6,050,000.00	[1] 1,232,371.61
Jul. 3	C/tfr at 4.76$\frac{7}{16}$: Equitable Trust Co., £225,000; London City & Midland Bank, £350,000; Union of London & Smiths, £50,000; cables, $2.14	2,977,736.52		
	Cash from U. S. assay office in settlement:			
	100 boxes bullion received June 17		118,424.14	
	100 boxes bullion received June 20		117,569.32	[1] 3,974,114.67
Jul. 5	C/tfr at 4.76$\frac{7}{16}$: International Banking Corp., £100,000; Lloyds Bank, Ltd., £50,000; Royal Bank of Canada, £35,000; Union of London & Smiths, $25,000; London City & Midland Bank, £480,000; cables, $2.76	3,287,421.51		[1] 7,261,536.18
Jul. 6	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £400,000; Capital & Counties Bank, £20,000; cables, $1.89	2,001,039.39		
	Participation ceded to National City Bank		1,000,000.00	
	Participation ceded to First National Bank		1,000,000.00	
	Cash from U. S. assay office in settlement; 100 boxes bullion received from Ottawa June 22		118,308.06	
	Cash from U. S. subtreasury, New York, on account 218 boxes and bags of bullion received from Ottawa, June 30, $4,790,000; less telegram $1; less expressage $34,773.75		4,755,225.25	[1] 2,389,042.26
Jul. 7	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £320,000; American Express Co., £75,000; London Joint Stock Bank, £50,000; cables, $2.14	2,120,149.03		
	Cash from U. S. assay office in settlement; 100 boxes bullion received from Ottawa June 23		118,165.97	[1] 4,391,025.32
Jul. 8	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £575,000; cables, $1.64	2,739,517.27		
Jul. 8	Participation ceded National City Bank		1,000,000.00	
	Participation ceded First National Bank		1,000,000.00	[1] 5,130,542.59
Jul. 10	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £50,000; cable, $1.51	238,220.26		
	Repayment of participation to—			
	National City Bank	1,000,000.00		
	First National Bank	1,000,000.00		
	Cash from U. S. Subtreasury on account 168 boxes bullion deposited with Philadelphia mint received from Ottawa June 30, less telegram, $1		5,095,999.00	[1] 2,272,763.85
Jul. 11	C/tfr at 4.76$\frac{7}{16}$: Lloyds Bank, £100,000; London Joint Stock Bank, Ltd., £30,000; London City & Midland Bank, £50,000; cables, $2.01	857,589.51		
	Repayment of participation to National City Bk	1,000,000.00		
	Cash from National City Bank for account interest less cable charges on $16,115,391.65		10,588.51	
	Cash from U. S. assay office on account 100 boxes bullion received from Ottawa July 11		3,023,700.00	[1] 1,096,064.85

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Jul. 12	C/tfr at 4.76$\frac{7}{16}$: American Express Co., £60,000; Brown Shipley & Co., £25,000; London City & Midland Bank, £410,000; cables, $2.14	$2,358,367.77		
	Repayment of participation to—			
	First National Bank	1,000,000.00		
	National City Bank	1,000,000.00		
	Cash from U. S. assay office in settlement—			
	150 boxes bullion received from Ottawa June 24		$91,710.48	
	100 boxes bullion received from Ottawa July 12		2,982,900.00	
	Interest on $17,000,000 from—			
	Guaranty Trust Co. b/o Lord Cunliffe		133,001.90	
	Bankers Trust Co. b/o Lord Cunliffe		133,698.63	
	Additional interest on $16,000,000 from National City Bank b/o London committee		115,391.65	[1] $1,997,729.96
July 13	C/tfr at 4.76$\frac{7}{16}$: Bank of British North America, £15,000; Lazard Bros. & Co., £100,000; Canadian Bk. of Commerce, £30,000; Commercial Bk. of Scotland, £15,000; London Joint Stock Bk., £50,000; Higginson & Company, £25,000; Barclay & Company, £25,000; London City & Midland Bk., £175,000; cables, $3.38	2,072,506.51		[1] 4,070,236.47
July 13	Cash from U. S. Subtreasury in settlement of 160 boxes bullion recd. from Ottawa June 27th, less telegram, $1.00		480,391.76	
	Cash from U. S. assay office on a/c 100 boxes bullion recd. from Ottawa July 13th		2,969,100.00	[1] 620,744.71
July 14	C/tfr. at 4.76$\frac{7}{16}$: Bk. of Montreal, £50,000; Lloyds Bank, £150,000; American Express Company, £75,000; cables, $2.01	1,310,205.14		
	Repayt. of partn. to 1st Natl. Bank of N. Y	750,000.00		
	Repayt. of partn. to National City Bank	750,000.00		[1] 3,430,949.85
July 14	Cash from U. S. Assay office on account of 100 boxes of bullion recd. from Ottawa July 14th		3,060,100.00	[1] 370,849.85
July 15	Repayt. of partn. to Natl. City Bank	250,000.00		
	Repayt. of partn. to 1st National Bank N. Y	250,000.00		[1] 870,849.85
July 15	Cash from U. S. assay office on account 100 boxes bullion recd. from Ottawa July 15th		3,006,700.00	2,135,850.16
July 16	Cable tfr. at 4.76$\frac{7}{16}$: London City & Midland Bank, £185,000; Equitable Trust Co., £140,000; London City & West Bank, £40,000; cables, $2.26	1,738,999.14		396,851.01
July 18	Cable tfr at 4.76$\frac{7}{16}$, London City & Midland Bank, £130,000; cables, $1.64	619,370.39		
July 18	Int. on cable tfr £25,000, 1 day at 4%, bought for payt. June 23rd, paid June 24th		13.23	[1] 222,506.15
July 21	Cash tfd to British Govt. Treas. account	4,000,000.00		[1] 4,222,506.15
July 21	Cash from U. S. assay office in settlement for 100 boxes bullion recd. July 11th		78,074.50	
	Cash from U. S. Subtreasury on account 129 boxes bullion deposited in Philadelphia Mint July 8th, $4,100,000.00 less express charges from Ottawa, $15,059.25 & telegram, $1.00		4,084,939.75	
	Cash from U. S. Subtreasury in settlement 200 boxes bullion recd. June 28th deposited in Philadelphia Mint less telegram, $1.00		156,704.21	[2] 97,212.31
July 22	Cash from U. S. Subtreasury in settlement 118 bags & 100 boxes bullion recd. June 30th deposited in Philadelphia Mint less telegram, $1.00		756,113.10	853,325.41
July 25	Cash tfr to British Govt. Treasury account	1,000,000.00		[1] 146,674.59
July 25	Cash from U. S. assay office in settlement of bullion recd. July 12th		77,484.60	
	Cash from U. S. assay office in settlement of bullion recd. July 13th		77,029.25	
	Cash from U. S. Subtreasury in settlement 168 boxes of bullion recd. June 30th, less telegram, $1.00		95,023.69	102,862.95
July 28	Cash from U. S. assay office in settlement 100 boxes bullion recd. July 14th		78,982.30	181,845.25
July 29	Payt. to U. S. mint, Philadelphia, over payt. on 129 boxes gold deposited July 18th	7,632.74		
	Cash from U. S. assay office in settlement 100 boxes bullion recd. July 15th		77,495.45	251,707.96

[1] Debit.

[2] Credit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Aug. 3	C/tfr. at 4.76 7/16: Standard Bank of South Africa, £20,000; London City & Midland Bank, £115,000; Equitable Trust Co., £150,000; cables, $2.14	$1,357,849.02		[1] $1,106,141.00
Aug. 4	C/tfr at 4.76 7/16: London City & Midland Bank, £350,000; Guaranty Trust Company, £200,000; International Banking Corp., £50,000; Equitable Trust Company, £500,000; cables, $2.26	5,240,814.76		[1] 6,346,955.82
Aug. 4	Partn. 1st Natl. Bank		$2,000,000.00	
	Partn. National City Bank		2,000,000.00	[1] 2,346,955.82
Aug. 4	Int. in account to July 9th, incl., at 4%, $8.190.63; int. in account to July 16th at 5%, $2.758.07; int. in account to July 31st at 4%, $65.49	11,014.19		[1] 2,357,970.01
Aug. 5	C/tfr at 4.76 7/16: London City & Midland Bank, £335,000; Farmers Loan & Trust, £150,000; International Bkg. Corp., £100,000; Equitable Trust Co., £225,000; cables, $2.51	3,859,146.27		[1] 6,217,116.28
Aug. 7	C/tfr at 4.76 7/16: Lazard Bros. & Co., £50,000; Standard Bank of South Africa, £20,000; Lloyds Bank, £50,000; London City & Midland Bank, £460,000; Equitable Trust Co., £100,000; cables, $2.51	3,239,777.52		[1] 9,456,893.80
Aug. 8	C/tfr at 4.76 7/16: International Bkg. Corp., £100,000; London City & Midland Bank, £65,000; Farmers Loan & Trust Co., £100,000; cables, $1.89	1,262,561.27		[1] 10,719,455.07
Aug. 9	C/tfr at 4.76 7/16: Lloyds Bank, £50,000; Standard Bank of South Africa, £20,000; London City & Midland Bank, £575,000; Lazard Bros. & Co., £20,000; cables, $2.39	3,168,311.77		[1] 13,887,766.84
Aug. 10	C/tfr at 4.76 7/16: London Joint Stock Bank, £50,000; Lazard Brothers & Co., £40,000; International Banking Corp., £100,000; Lloyds Bank, £125,000; Equitable Trust Co., £200,000; Barclay & Co., £75,000; London City & Midland Bank, £550,000; cables, $3.14	5,431,390.65		[1] 19,319,157.49
Aug. 11	C/tfr at 4.76 7/16: London City & Midland Bank, £575,000; Lloyds Bank, £50,000; International Banking Corp., £150,000; Glyn Mills Currie & Co., £50,000; Lazard Brothers & Co., £40,000; Royal Bank of Canada, £25,000; London Joint Stock Bank, £70,000; Farmers Loan & Trust Co., £100,000; Brown Shipley & Co., £50,000; Equitable Trust Co., £150,000; American Express Co., £50,000; cables, $4.26	6,241,335.51		[1] 25,560,493.00
Aug. 12	C/tfr at 4.76 7/16: London City & Midland Bank, £760,000; National Bank of So. Africa, £20,000 Standard Bank of South Africa, £20,000; Royal Bank of Canada, £30,000; American Express Co., £50,000; Lazard Brothers & Co., £70,000; International Banking Corp., £100,000; Farmers Loan & Trust Co., £150,000; Equitable Trust Co., £200,000; Union Bank of London & Smiths, £100,000; Guaranty Trust Co., £200,000; cables, $4.51	8,099,442.02		[1] 33,659,935.02
Aug. 14	C/tfr 4.76 7/16: Lazard Brothers & Co., £70,000; London City & Midland Bank, £225,000; Equitable Trust Co., £300,000; International Banking Corp., £100,000; cables, $2.26	3,311,242.89		
	Cash from British Government Treasury		25,000,000.00	[1] 11,971,177.91
Aug. 15	C/tfr at 4.76 7/16: Standard Bank of South Africa, £20,000; International Banking Corp., £150,000; London City & Midland Bank, £400,000; London Joint Stock Bank, £75,000; Farmers Loan & Trust Co., £30,000; cables, $2.51	3,215,955.63		[1] 15,187,133.54
Aug. 17	Cash from U. S. assay office on account of 131 boxes bullion received Aug. 15		4,171,100.00	[1] 11,016,033.54
Aug. 18	Cash from U. S. assay office on account of:			
	152 boxes bullion received Aug. 15		2,436,200.00	
	152 boxes bullion received Aug. 15		2,483,100.00	
	36 boxes bullion received Aug. 15		1,004,562.22	[1] 5,092,171.32
Aug. 23	C/tfr at 4.76 7/16: London City & Midland Bank, £100,000; cable, $1.51	476,439.01		[1] 5,568,610.33
Aug. 24	C/tfr at 4.76 7/16: Farmers Loan & Trust Co., £150,000; Lloyds Bank, Ltd., £30,000; cable, $1.88	857,589.38		
	Proceeds of gold clippings ex *Tuscania*		174.76	[1] 6,426,024.95

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Aug. 25	C/tfr at 4.76$\frac{7}{16}$: Chartered Bank of India, Australia & China, £50,000; London City & Midland Bank, £380,000; London Joint Stock Bank, £25,000; Equitable Trust Co., £100,000; cable, $2.39	$2,644,230.51		[1] $9,070,255.46
Aug. 26	C/tfr at 4.76$\frac{7}{16}$: Barclay & Co., Ltd., £50,000; American Express Co., £60,000; cable, $1.76	524,083.01		[1] 9,594,338.47
Aug. 28	C/tfr at 4.76$\frac{7}{16}$: Equitable Trust Co., £100,000; London City & Midland Bank, £225,000; cable, $2.64	1,548,424.52		[1] 11,142,762.99
Aug. 29	C/tfr at 4.76$\frac{7}{16}$: Royal Bank of Canada, £75,000; London City & Midland Bank, £450,000; cable, $1.76	2,501,298.63		[1] 13,644,061.62
Aug. 30	London City & Midland Bank, £475,000; Equitable Trust Co., £200,000; Royal Bank of Canada, £75,000; cable, $2.14	3,573,283.39		[1] 17,217,345.01
Aug. 31	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £1,025,000; London County & Westminster Bk., £100,000; Equitable Trust Co., £100,000; Guaranty Trust Co., £300,000; cable, $2.39	7,265,674.27		[1] 24,483,019.28
Sept. 1	C/tfr at 4.76$\frac{7}{16}$: Equitable Trust Co., £400,000; London City & Midland Bank, £325,000; Standard Bank of South Africa, £20,000; cable, $2.13	3,549,461.51		
	Repayment of participation to:			
	First National Bank	2,000,000.00		
	National City Bank	2,000,000.00		
	Accrued interest to date at 4%	51,080.56		
	Cash from British Government Treasury account		$32,083,561.35	
Sept. 2	C/tfr at 4.76$\frac{7}{16}$: Guaranty Trust Co., New York, £300,000; American Express Co., £60,000; London City & Midland Bank, £545,000; cable, $2.14	4,311,761.52		
	Cash from British Government Treasury		4,400,000.00	88,238.48
Sept. 5	C/tfr at 4.76$\frac{7}{16}$: Royal Bank of Canada, £20,000; Equitable Trust Co., £100,000; Guaranty Trust Co., £300,000; London City & Midland Bank, £120,000; Bank of British North America, £15,000; cable, $2.88	2,644,231.01		
	Cash from British Government Treasury		2,600,000.00	44,007.47
Sep. 6	C/tfr at 4.76$\frac{7}{16}$: Standard Bank of South Africa, £20,000; Farmers Loan & Trust Co., £100,000; London City & Midland Bank, £405,000; Commercial Bank of Scotland, £150,000; Royal Bank of Canada, £50,000; Glyn Mills Currie & Co., £50,000; Bank of British North America, £15,000; Equitable Trust Co., £400,000; cable, $3.39	5,669,609.64		
	Cash from British Government Treasury		5,700,000.00	74,397.83
Sep. 7	C/tfr at 4.76$\frac{7}{16}$: London Joint Stock Bank, £50,000; London City & Midland Bank, £295,000; Barclay & Co., Ltd., £150,000; Farmers Loan & Trust Co., £200,000; Royal Bank of Canada, £50,000; cable, $2.64	3,549,462.00		
	Cash from British Government Treasury		3,500,000.00	24,935.81
Sep. 8	C/tfr at 4.76$\frac{7}{16}$: Barclay & Co., Ltd., £350,000; London City & Midland Bank, £200,000; Equitable Trust Co., £200,000; Farmers Loan & Trust Co., £100,000; London County & Westminster Bank, £50,000; American Express Co., £50,000; cable, $2.64	4,526,158.89		
	Cash from British Government Treasury		4,600,000.00	99,038.92
Sep. 9	C/tfr at 4.76$\frac{7}{16}$: Farmers Loan & Trust Co., £200,000; Equitable Trust Co., £125,000; London City & Midland Bank, £250,000; cable, $2.26	4,025,899.14		
	Cash paid Philadelphia National Bank interest 1 day at 3% on cable transfer £280,000 bot for payment Jul. 5 paid Jul. 4	111.17		
	Cash from British Government Treasury		4,000,000.00	73,028.61
Sep. 9	Interest on cable transfer £75,000 at 4½% bot for payment Sep. 7 paid Sep. 8		44.64	
	Interest on cable transfer £20,000 at 5% bot for payment Sep. 6 paid Sep. 7		13.23	
	Allowance for overcharge of interest on account of loan $115,391.65 Jul. 12 should have been valued as of Jul. 11		16.02	73,102.50

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Sep. 11	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £200,000; cable, $1.39	$952,876.39		
	Cash from British Government Treasury		$900,000.00	$20,226.11
Sep. 12	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £150,000; Royal Bank of Canada, £50,000; Standard Bank of South Africa, £20,000; Barclay & Co., Ltd., £350,000; London County & Westminster Bank, £75,000; Equitable Trust Co., £175,000; cable, $2.89	3,906,790.40		
	Cash from British Government Treasury account		3,800,000.00	
Value Sep. 8	Cash from U. S. assay office in final settlement: 131 boxes bullion received Aug. 15 ex *Tuscania*		109,680.41	
Sep. 8	Cash from U. S. assay office additional advance on 152 boxes bullion received Aug. 15 ex *Celtic*		63,848.78	86,964.90
Sep. 13	C/tfr at 4.76$\frac{7}{16}$: Barclay & Co., Ltd., £175,000; American Express Co., £25,000; cable, $1.75	952,876.75		
	Cash from British Government Treasury		900,000.00	
	Cash from U. S. assay office in final settlement for 152 boxes bullion received Aug. 15		65,408.34	99,496.49
Sep. 20	C/tfr at 4.76$\frac{7}{16}$: Standard Bank of South Africa, £20,000; Lazard Brothers & Co., £50,000; Equitable Trust Co., New York, £250,000; London City & Midland Bank, £100,000; Commercial Bank of Scotland, £100,000; cable, $2.50	2,477,477.50		[1] 2,377,981.01
Sep. 20	Cash from British Government Treasury		2,400,000.00	22,018.99
Sep. 21	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £250,000; Equitable Trust Co., £200,000; cable, $1.75	2,143,970.50		
	Cash from British Government Treasury		2,200,000.00	78,048.49
Sep. 22	C/tfr at 4.76$\frac{7}{16}$: National Provincial Bank of Eng., £40,000; London City & Midland Bank, £50,000; Barclay & Co. Ltd., £150,000; cable, $2	1,143,452.00		
	Cash from British Government Treasury		1,100,000.00	34,596.49
Sep. 23	C/tfr at 4.76$\frac{7}{16}$: Standrard Bank of South Africa, £30,000; cable, $1.50	142,932.75		
	Cash from British Government Treasury		200,000.00	91,663.74
Sep. 25	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £225,000; Farmers Loan & Trust Co., £50,000; American Express Co., £30,000; cable, $2	1,453,136.38		
	Cash from British Government Treasury		1,400,000.00	38,527.36
Sep. 26	C/tfr at 4.75$\frac{7}{16}$: Lloyds Bank, Ltd., £20,000; Guaranty Trust Co., £100,000; Farmers Loan & Trust Co., £100,000; Union of London & Smiths Bank, £200,000; London City & Midland Bank, £145,000; Equitable Trust Co., £200,000; cable, $2.75	3,644,749.63		
	Cash from British Government Treasury		3,700,000.00	93,777.73
Sep. 27	Cash from British Government Treasury		6,400,000.00	
Sep. 27	C/tfr at 4.76$\frac{7}{16}$: Equitable Trust Co., £300,00; Lloyds Bank, Ltd., £20,000; Royal Bank of Canada, £100,000; National Provincial Bank of Eng., £40,000; American Express Co., £50.000; Guaranty Trust Co., £200,000; London City & Midland Bank, £640,000; cable, $3	6,431,909.25		61,868.48
Sep. 28	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £400,000; Lloyds Bank Ltd., £20.000; Royal Bank of Canada, £50,000; Equitable Trust Co., £100,000; Barclay & Co., Ltd., £50,000; Union of London & Smiths, £125,000; National Bank of South Affica, £20,000; cable, $3.50	3,644,750.38		
	Cash from British Government Treasury		3,600,000.00	17,118.10
Sep. 29	C/tfr at 4.76$\frac{7}{16}$: Standard Bank of South Africa, £20,000; Lloyds Bank, Ltd., £50,000; Royal Bank of Canada, £50,000; Commercial Bank of Scotland, £100,000; London Joint Stock Bank, £100,000; Equitable Trust Co., £300,000; Union of London & Smiths Bank, £75,000; London City & Midland Bank, £475,000; Guaranty Trust Co., £300,000; cable, $3.50	7,003,634.75		
	Cash from British Government Treasury		7,000,000.00	13,483.35

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Sep. 30	C/tfr at 4.76$\frac{7}{16}$: C. J. Hambro & Son, £100,000; Lloyds Bank, £40,000; London City & Midland Bank, £250,000; American Express Co., £25,000; cable, $2.25	$1,977,217.87		
	Cash from British Government Treasury		$2,000,000.00	$36,265.48
Oct. 2	C/tfr at 4.76$\frac{7}{16}$: Farmers Loan & Trust Co., £75,000; London City & Midland Bank, £175,000; Barclay & Co., Ltd., £100,000; cable, $2.13	1,667,533.38		
	Interest 1 day at 5% on c/tfr £125,000 bot for payment Sep. 28, paid Sep. 29		82.71	
	Cash from British Government Treasury		1,700,000.00	68,814.81
Oct. 3	C/tfr at 4.76$\frac{7}{16}$: Standard Bank of South Africa, £30,000; London City & Midland Bank, £450,000; Canadian Bank of Commerce, £50,000; cable, $1.88	2,525,120.63		
	Cash from British Government Treasury		2,500,000.00	43,694.18
Oct. 5	C/tfr at 4.76$\frac{7}{16}$: C. J. Hambro & Son, £100,000; American Express Co., £25,000; cable, $1.75	595,548.62		
	Cash from British Government Treasury		600,000.00	48,145.56
Oct. 6	C/tfr at 4.76$\frac{7}{16}$: International Banking Corp., £100,000; Royal Bank of Canada, £75,000; Equitable Trust Co., £200,000; Farmers Loan & Trust Co., £50,000; American Express Co., £50,000; Guaranty Trust Co., £300,000; London City & Midland Bank, £210,000; cable, $3.13	4,692,912.51		
	Cash from British Government Treasury		4,700,000.00	55,233.05
Oct. 7	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £100,000; Equitable Trust Co., £200,000; National Provincial Bank of Eng., £60,000; Bank of British North America, £35,000; Standard Bank of South Africa, £20,000; cable, $2.38	1,977,218.00		
	Cash from British Government Treasury		2,000,000.00	78,015.05
Oct. 9	C/tfr at 4.76$\frac{7}{16}$: Bank of Montreal, £20,000; London City & Midland Bank, £370,000; Equitable Trust Co., £100,000; cable, $2	2,334,545.75		
	Cash from British Government Treasury		2,300,000.00	43,469.30
Oct. 10	C/tfr at 4.76$\frac{7}{16}$: Equitable Trust Co., £100,000; Farmers Loan & Trust Co., £100,000; Guaranty Trust Co., £100,000; Royal Bank of Canada, £75,000; London County & Westminster Bank, £60,000; London City & Midland Bank, £680,000; cable, $2.75	5,312,280.88		
	Cash from British Government Treasury		5,300,000.00	31,188.42
Oct. 11	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £1,150,000; Guaranty Trust Co., £300,000; Lloyds Bank, Ltd., £300,000; Royal Bank of Canada, £225,000; Canadian Bank of Commerce, £50,000; Equitable Trust Co., £100,000; American Express Co., £50,000; cable, $3.13	10,362,518.76		
	Cash from British Government Treasury		10,400,000.00	68,669.66
Oct. 13	C/tfr at 4.76$\frac{7}{16}$: American Express Co., £50,000; National Provincial Bank of Eng., £120,000; Lloyds Bank, Ltd., £300,000; Equitable Trust Co., £400,000; Guaranty Trust Co., £400,000; London City & Midland Bank, £1,000,000; cable, $3	10,815,134.25		
	Cash from British Government Treasury		10,800,000.00	53,535.41
Oct. 14	Cash from British Government Treasury		6,900,000.00	6,953,535.41
Oct. 14	C/tfr at 4.76$\frac{7}{16}$: American Express Co., £75,000; London City & Midland Bank, £100,000; C. J. Hambro & Son, £100,000; Farmers Loan & Trust Co., £200,000; Royal Bank of Canada, £245,000; Equitable Trust Co., £250,000; Lazard Brothers & Co., £300,000; Higginson & Co., £150,000; Barclay & Co., Ltd., £25,000; cable, $3.50	6,884,525.38		69,010.03
Oct. 16	C/tfr at 4.76$\frac{7}{16}$: Equitable Trust Co., £300,000; Lloyds Bank, Ltd., £100,000; Lazard Brothers & Co., £100,000; London City & Midland Bank, £420,000; cable, $2.25	4,383,227.25		[1] 4,314,217.22
Oct. 17	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £225,000; Lazard Brothers & Co., £200,000; Farmers Loan & Trust Co., £100,000; Guaranty Trust Co., £300,000; cable, $2.25	3,930,611.63		[1] 8,244,828.85

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Oct. 18	C/tfr at $4.76\frac{7}{16}$: Canadian Bank of Commerce, £80,000; Royal Bank of Canada, £150,000; Standard Bank of South Africa, £20,000; Lloyds Bank, Ltd., £50,000; London City & Midland Bank, £490,000; cable, $2.50	$3,763,858.75	--------	[1] $12,008,687.60
Oct. 19	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £285,000; Royal Bank of Canada, £100,000; National Bank of South Africa, £30,000; cable, $2.50	1,977,218.12	--------	--------
	Cash from First National Bank on participation ceded	--------	$2,500,000.00	--------
	Cash from National City Bank on participation ceded	--------	2,500,000.00	[1] 8,985,905.72
Oct. 20	C/tfr at $4.76\frac{7}{16}$: Lloyds Bank, Ltd., £50,000; C. J. Hambro & Son, £125,000; Equitable Trust Co., £200,000; Guaranty Trust Co., £200,000; London City & Midland Bank, £475,000; cable, $2.75	5,002,596.50	--------	[1] 13,988,502.22
Oct. 21	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £100,000; cable, $1.38	476,438.88	--------	[1] 14,464,941.10
Oct. 23	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £150,000; Lazard Brothers & Co., £150,000; cable, $1.63	1,429,314.13	--------	[1] 15,894,255.23
Oct. 24	C/tfr at $4.76\frac{7}{16}$: Canadian Bank of Commerce, £25,000; Lloyds Bank, Ltd., £50,000; London City & Midland Bank, £350,000; cable, $2	2,024,861.38	--------	[1] 17,919,116.61
Oct. 25	C/tfr at $4.76\frac{7}{16}$: Royal Bank of Canada, £200,000; Canadian Bank of Commerce, £100,000; Farmers Loan & Trust Co., £100,000; London City & Midland Bank, £200,000; cable, $2.13	2,858,627.13	--------	[1] 20,777,743.74
Oct. 26	C/tfr at $4.76\frac{7}{16}$: Guaranty Trust Co., £300,000; cable, $1.50	1,429,314.00	--------	--------
	Interest 2 days at 4% on £75,000 c/tfr bot for payment Oct. 14, paid Oct. 16	--------	79.40	[1] 22,206,978.34
Oct. 27	C/tfr at $4.76\frac{7}{16}$: Royal Bank of Canada, £200,000; Chartered Bank of India, Australia & China, £50,000; Standard Bank of South Africa, £20,000; National Provincial Bank of Eng., £40,000; C. J. Hambro & Son, £40,000; London City & Midland Bank, £575,000; cable, $2.88	4,407,049.76	--------	--------
Oct. 27	Cash from First National Bank on participation ceded	--------	2,500,000.00	--------
	Cash from National City Bank on participation ceded	--------	2,500,000.00	[1] 21,614,028.10
Oct. 30	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £350,000; Farmers Trust & Loan Co., £100,000	2,143,970.38	--------	--------
	Cash from London Exchange Committee, value Oct. 28	--------	1,019,406.71	[1] 22,738,591.77
Oct. 31	C/tfr at $4.76\frac{7}{16}$: Canadian Bank of Commerce, £75,000; Royal Bank of Canada, £100,000; Lloyds Bank, £100,000; London City & Midland Bank, £500,000; cables, $2.50	3,692,393.13	--------	[1] 26,430,984.90
Nov. 1	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £450,000; Standard Bank of South Africa, £30,000; cables, $1.75	2,286,901.75	--------	--------
	Interest to make rate 5% on £75,000 c/tfr bot for payment Oct. 14, paid Oct. 16	--------	19.85	[1] 28,717,866.80
Nov. 2	C/tfr at $4.76\frac{7}{16}$, London City & Midland Bank, £450,000; cable, $1.50	2,143,970.25	--------	[1] 30,861,837.05
Nov. 8	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £585,000; Royal Bank of Canada, £100,000; cable, $2.13	3,263,599.02	--------	[1] 34,125,436.07
Nov. 9	C/tfr at $4.76\frac{7}{16}$: National Provincial Bank of Eng., £50,000; Guaranty Trust Co., £100,000; Lloyds Bank, £120,000; Farmers Loan & Trust, £200,000; Equitable Trust, £150,000; C. J. Hambro & Sons, £50,000; London City & Midland Bank, £320,000; cable, $3.13	4,716,734.38	--------	[1] 38,842,170.45
Nov. 10	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £1,055,000; Equitable Trust Co., £300,000; Lloyds Bank, £70,000; Guaranty Trust Co., £300,000; Standard Bank of South Africa, £30,000; cable, $2.50	8,361,480.63	--------	--------
	Repayment of participation to:			
	National City Bank	5,000,000.00	--------	--------
	First National Bank	5,000,000.00	--------	--------
	Interest to date at 4%	81,344.38	--------	--------
	Cash from British Government Treasury	--------	57,284,995.46	--------

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Nov. 11	C/tfr at 4.76 7/16: Royal Bank of Canada, £100,000; Equitable Trust Co., £150,000; Lazard Brothers & Co., £100,000; Lloyds Bank, £50,000; Barclay & Co., Ltd., £250,000; London City & Midland Bank, £100,000; Guaranty Trust Co., £200,000; cable, $3.10	$4,526,159.38		[1] $4,526,159.38
Nov. 11	Cash from British Government Treasury		$4,600,000.00	73,840.62
Nov. 13	C/tfr at 4.76 7/16: International Banking Corp., £50,000; Standard Bank of South Africa, £20,000; London City & Midland Bank, £270,000; cable $2	1,619,889.50		
	Anglo South American Bank, £50,000	238,218.75		
	Cash from British Government Treasury		1,800,000.00	15,732.37
Nov. 14	C/tfr at 4.76 7/16: Canadian Bank of Commerce, £100,000; Equitable Trust Co., £100,000; Guaranty Trust Co., £100,000; C. J. Hambro & Sons, £70,000; American Express Co., £50,000; London City & Midland Bank, £475,000; cable, $2.75	4,264,118.38		
	Cash from British Government Treasury		4,300,000.00	51,613.99
Nov. 15	C/tfr at 4.76 7/16: Standard Bank of South Africa, £20,000; Equitable Trust Co., £100,000; London City & Midland Bank, £1,175,000; cable $2.13	5,693,430.26		
	Cash from Birtish Government Treasury		5,700,000.00	
	Interest 1 day at 5% on £70,000 C/tfr bot for payment Nov. 10, paid Nov. 11		46.32	58,230.05
Nov. 16	C/tfr at 4.76 7/16: Barclays Bank, Ltd., £300,000; Lloyds Bank Ltd., £300,000; Equitable Trust Co., £250,000; Guaranty Trust Co., £300,000; London City & Midland Bank, £500,000; cable, $2.38	7,861,221.13		
	Cash from British Government Treasury		7,900,000.00	97,008.92
Nov. 17	C/tfr at 4.76 7/16: London City & Midland Bank, £350,000; Guaranty Trust Co., £200,000; American Express Co., £50,000; Lloyds Bank, Ltd., £50,000; cable, $2	3,096,845.75		
	Cash from British Government Treasury		3,000,000.00	163.17
Nov. 18	C/tfr at 4.76 7/16: London City & Midland Bank, £175,000; cable, $1.50	833,767.12		
	Cash from British Government Treasury		900,000.00	66,396.05
Nov. 20	C/tfr at 4.76 7/16: London City & Midland Bank, £725,000; Lloyds Bank, Ltd., £200,000; American Express Co., £60,000; Guaranty Trust Co., £250,000; cable, $2.25	5,884,005.38		
	Cash from British Government Treasury		5,900,000.00	82,390.67
Nov. 21	C/tfr at 4.76 7/16: C. J. Hambro & Sons, £200,000; Farmers Loan & Trust Co., £200,000; Standard Bank of South Africa, £20,000; Lloyds Bank, Ltd., £50,000; American Express Co., £100,000; London City & Midland Bank, £100,000; London City & Midland Bank, £450,000; cable, $2.63	5,336,102.63		
	Cash from Birtish Government Treasury		5,300,000.00	46,288.04
Nov. 22	C/tfr at 4.76 7/16: London City & Midland Bank, £560,000; Royal Bank of Canada., £200,000; Equitable Trust Co., £200,000; Guaranty Trust Co., £400,000; Lloyds Bank, £250,000; Commercial Bank of Scotland, £100,000; cable, $2.88	8,147,084.13		
	Cash from British Government Treasury		8,200,000.00	99,203.91
Nov. 23	C/tfr at 4.76 7/16: Equitable trust Co., £200,000; Guaranty Trust Co., £300,000; London City & Midland Bank, £20,000; cable, $1.88	2,477,476.88		[1] 2,378,272.97
Nov. 24	C/tfr at 4.76 7/16: Standard Bank of South Africa, £20,000; Royal Bank of Canada, £200,000; Lloyds Bank, Ltd., £300,000; Equitable Trust Co., £600,000; London City & Midland Bank, £750,000; cable, $2.50	8,909,383.75		[1] 11,287,656.72
Nov. 25	C/tfr at 4.76 7/16: London City & Midland, £1,125,000; Farmers Trust & Loan Co., £150,000; Lloyds Bank, Ltd., £100,000; Guaranty Trust Co., £400,000; cable, $2.38	8,456,768.01		[1] 19,744,424.73
Nov. 27	C/tfr at 4.76 7/16: Lazard Brothers & Co., £50,000; Lloyds Bank, Ltd., £150,000; Royal Bank of Canada, £125,000; American Express Co., £50,000; London City & Midland Bank, £675,000; cable, $2.63	5,002,596.39		

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Nov. 28	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £1,090,000; Guaranty Trust Co., £250,000; Baring Brothers & Co., £100,000; National Provincial Bank of Eng., £100,000; Equitable Trust Co., £50,000; Anglo South American Bank, £100,000; cable, $3	$8,051,796.75		[1] $32,798,817.87
Nov. 29	C/tfr at 4.76$\frac{7}{16}$: Anglo South American Bank, £75,000; Baring Brothers & Co., £75,000; Standard Bank of South Africa, £20,000; C. J. Hambro & Sons, £50,000; Royal Bank of Canada, £125,000; London County & Westminster Bank, £60,000; Bank of Montreal, £25,000; Guaranty Trust Co., £750,000; London City & Midland Bank, £1,615,000; London South Western Bank, £500,000; Lloyds Bank, £200,000; Equitable Trust Co., £400,000; Brown Shipley & Co., £100,000; cable, $4.88	19,033,683.02		[1] 51,832,500.89
Dec. 1	C/tfr at 4.76$\frac{7}{16}$: Guaranty Trust Co., £800,000; Lloyds Bank, Ltd., £400,000; Anglo South American Bank, £100,000; Bank of British North America, £25,000; Standard Bank of South Africa, £20,000; London & South Western Bank, £300,000; Commercial Bank of Scotland, £100,000; American Express Co., £75,000; Union of London & Smiths Bank, £50,000; Equitable Trust Co., £350,000; Farmers Loan & Trust Co., £100,000; London City & Midland Bank, £425,000; cable, $4.50	13,078,213.87		[1] 64,910,714.76
Dec. 1	Interest 1 day, at 5% on c/tfr £100,000 bot for payment Nov. 28, paid Nov. 29		$66.17	[1] 64,910,648.59
Dec. 2	C/tfr at 4.76$\frac{7}{16}$: Guaranty Trust Co., £1,400,000; Lloyds Bank, Ltd., £100,000; American Express Co., £100,000; Anglo South American Bank, £100,000; Bank of British North America, £50,000; Bank of Montreal, £25,000; London & Southwestern Bank, £50,000; Equitable Trust Co., £1,300,000; Farmers Loan & Trust Co., £200,000; Lazard Brothers & Co., £30,000; London City & Midland Bank, £725,000; cable, $4.50	19,438,654.50		[1] 84,349,303.09
Dec. 4	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £700,000; Guaranty Trust Co., £1,000,000; Equitable Trust Co., £425,000; Anglo South American Bank, £100,000; International Banking Corp., £100,000; Farmers Loan & Trust Co., £100,000; Lazard Brothers & Co., £70,000; cable, $3.13	11,887,118.76		
	Participation of National City Bank		5,000,000.00	
	Cash from National Bank of Commerce, New York, re $25,000 Chicago Rock Island & Pacific Gen. Mtge., 4% 1988 account Merchants Loan & Trust Co., Chicago		21,874.31	
	Cash from British Government Treasury		25,000,000.00	[1] 66,214,547.54
Dec. 5	C/tfr at 4.76$\frac{7}{16}$: Equitable Trust Co., £500,000; Lazard Brothers & Co., £200,000; American Express Co., £100,000; International Banking Corp., £100,000; C. J. Hambro & Son, £100,000; London County & Westminster Bank, £60,000; Canadian Bank of Commerce, £50,000; Lloyds Bank, Ltd., £50,000; National Provincial Bank of Eng., £40,000; Guaranty Trust Co., £900,000; London City & Midland Bank, £1,130,000; cable, $4.13	15,388,935.38		[1] 81,603,482.92
Dec. 6	C/tfr at 4.76$\frac{7}{16}$: London City & Midland Bank, £665,000; Equitable Trust Co., £1,100,000; London & Southwestern Bank, £70,000; Lazard Brothers & Co., £100,000; Farmers Loan & Trust, £100,000; International Banking Corp., £100,000; Standard Bank of South Africa, £20,000; Anglo South American Bank, £100,000; Lloyds Bank, £800,000; Guaranty Trust Co., £900,000; cable, $4	18,843,107.13		
	Interest 3 days at 5% on c/tfr £50,000, bot for payment Dec. 1, paid Dec. 4		99.26	
	Cash from First National Bank loan participation		5,000,000.00	
	Cash from Bankers Trust loan participation		2,500,000.00	[1] 92,946,490.79

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Dec. 7	C/tfr at $4.76\frac{7}{16}$: Guaranty Trust Co., £800,000; Equitable Trust Co., £700,000; Anglo South American Bank, £200,000; Lloyds Bank, Ltd., £100,000; National Provincial Bank of Eng., £100,000; American Express Co., £100,000; Farmers Loan & Trust Co., £150,000; National Bank of South Africa, £50,000; London City & Midland Bank, £1,550,000; cable, $3.63	$17,866,409.88		[1] $110,812,900.67
Dec. 8	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £650,000; Farmers Loan & Trust Co., £150,000; Anglo South American Bank, £50,000; International Banking Corp., £100,000; London & Brazilian Bank, £100,000; National Bank of South Africa, £50,000; International Banking Corp., £100,000; London & Brazilian Bank, £100,000; National Bank of So. Africa, £50,000; Equitable Trust Co., £700,000; cable, $3	8,575,878.00		[1] 119,388,778.67
Dec. 8	Repayment of participation, First National Bank	5,000,000.00		
	Cash from British Government Treasury		$50,000,000.00	[1] 74,388,778.67
Dec. 9	C/tfr at $4.76\frac{7}{16}$: Equitable Trust Co., £200,000; Lazard Bros. & Co., £50,000; London City & Midland Bank, £550,000; cables, $1.88	3,811,501.88		[1] 78,200,280.55
Dec. 9	Int. on cable tfr £50,000 bought for payt. Dec. 2nd, paid Dec. 4th, $66.17		66.17	[1] 78,200,214.38
Dec. 11	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bank, £200,000; Anglo South American Bank, £100,000; Lazard Bros. & Company, £100,000; cables, $2.00	1,905,752.00		[1] 80,105,966.38
Dec. 12	C/tfr at $4.76\frac{7}{16}$: Anglo South American Bank, £200,000; Farmers Loan & Trust Co., £150,000; Intl. Banking Corp., £100,000; Guaranty Trust Co., £200,000; American Express Co., £100,000; Equitable Trust Co., £500,000; London County & West Bk., £60,000; London City & Midland Bk., £800,000; cables, $3.25	10,052,834.50		[1] 90,158,800.88
Dec. 13	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bk., £775,000; Guaranty Trust Co., £1,000,000; Equitable Trust Co., £1,000,000; Farmers Loan & Trust Co., £100,000; American Express Co., £100,000; Natl. Provincial Bk. of England, £100,000; Anglo South Amer. Bank, £100,000; London & South West Bank, £100,000; Lazard Bros. & Co., £70,000; Canadian Bk. of Commerce, £50,000; Higginson & Company, £100,000; cables, $4.13	16,651,494.76		[1] 106,810,295.64
Dec. 13	Cash from British Govt. Treasury account		50,000,000.00	
	Partn. of Bankers Trust Co		4,000,000.00	[1] 52,810,295.64
Dec. 14	C/tfr at $4.76\frac{7}{16}$: Canadian Bk. of Commerce, £50,000; Equitable Trust Co., £500,000; Farmers Loan & Trust Co., £100,000; Natl. Bank of South Africa, £25,000; Standard Bk. of South Africa, £20,000; London City & Midland Bank, £1,075,000; cables, $3.00	8,432,946.76		[1] 61,243,242.40
Dec. 15	C/tfr at $4.76\frac{7}{16}$: Farmers Loan & Trust Co., £100,000; Anglo South Amer. Bank, £200,000; London & South West Bank, £50,000; Canadian Bk. of Commerce, £150,000; Equitable Trust Co., £300,000; Union of London & Smiths Bk., £600,000; C. J. Hambro & Son, £40,000; Lloyds Bank, Ltd., £500,000; London City & Midland Bank, £600,000; cables, $3.38	12,101,515.88		[1] 73,344,758.28
Dec. 18	London City & Midland Bank, £220,000; Guaranty Trust Co., £1,000,000; Equitable Trust Co., £300,000; London & South West Bank, £250,000; Royal Bk. of Canada, £240,000; Farmers Loan & Trust Co., £100,000; cables, $3.00	10,052,834.25		[1] 83,397,592.53
Dec. 18	Cash from British Govt. Treas. account		50,000,000.00	[1] 33,397,592.53
Dec. 19	C/tfr at $4.76\frac{7}{16}$: Farmers Loan & Trust Co., £100,000; C. J. Hambro & Son, £200,000; Intl. Banking Corp., £100,000; Canadian Bk. of Commerce, £200,000; London Co. & West Bank, £75,000; Equitable Trust Co., £300,000; London City & Midland Bank, £250,000; cables, $3.00	5,836,362.38		39,233,954.91

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Dec. 20	Cash from Viscose Company, a/c Courtaulds, Ltd., London		$1,027,703.98	[1] $38,206,250.93
Dec. 20	C/tfr at $4.76\frac{7}{16}$: Anglo So. Amer. Bank, £150,000; Guaranty Trust Co., £200,000; Equitable Trust Co., £50,000; Union of London & Smiths, £35,000; London City & Midland Bk., £950,000; cable, $2.50	$6,598,661.88		[1] 44,804,912.81
Dec. 21	C/tfr at $4.76\frac{7}{16}$: London City & Midland Bk., £700,000; Farmers Loan & Tr. Co., £150,000; Anglo So. Amer. Bk., £100,000; London & Gt. West Bank, £100,000; Natl. Provincial Bk. of Eng., £75,000; C. J. Hambro & Son, £30,000; Lazard Bros. & Co., £30,000; Union of London & Smiths Bk., £25,000; Standard Bk. of So. Africa, £20,000; Guaranty Trust Co., £200,000; cables, $3.75	6,813,060.01		[1] 51,617,972.82
Dec. 22	C/tfr at $4.76\frac{7}{16}$: Anglo So. Amer. Bank, £100,000; Lloyds Bank, £200,000; Hongkong & Shanghai Bk. Co., £50,000; Farmers Loan & Trust Co., £100,000; Intl. Banking Corp., £100,000; London City & Midland Bk., £675,000; cables, $2.88	5,836,362.26		
	Cash from New York Life Insurance Company		34,658.50	[1] 57,419,676.58
Dec. 27	C/tfr $4.76\frac{7}{16}$: Equitable Trust Co., £500,000; Royal Bk. of Canada, £200,000; Guaranty Trust Co., £200,000; Natl. Bk. of So. Africa, £50,000; Farmers Loan & Tr. Co., £150,000; London City & Midland Bk., £375,000; cables, $5.63	7,027,458.76		64,447,135.34
Dec. 28	Cash from Drexel & Company for a/c London Exchange Committee a/c Courtaulds, Ltd., London		379,594.46	[1] 64,067,540.88
Dec. 29	C/tfr $4.76\frac{7}{16}$: London City & Midland Bank, £350,000; Royal Bank of Canada, £200,000; Equitable Trust Co., £200,000; cables, $1.88	3,573,283.13		
	Cash from Viscose Company a/c London Exchange Committee a/c Courtlands, Ltd., London		1,546.02	[1] 67,639,277.99
Dec. 30	C/tfr $4.76\frac{7}{16}$: Equitable Trust Co., £500,000; American Ex. Co., £50,000; London City & Midland Bk., £950,000; cables, $2.00	7,146,564.50		
	Interest to Nov. 28 at 5%, $10,819.69; interest Nov. 28 to Jan. 1, 1917, at 6%, $424,945.12	435,764.81		[1] 75,221,607.30
1917 Jan. 1	Debit at opening of business, £65,190,000 at $4.76\frac{7}{16}$			[1] 75,221,607.30
Jan. 2	C/tfr Equitable Trust Co., £200,000 at $4.76\frac{7}{16}$; c/tfr Lazard Bros. & Co., £120,000 at $4.76\frac{7}{16}$; c/tfr Anglo So. A. Bk., £100,000 at $4.76\frac{7}{16}$; c/tfr Guaranty Tr. Co., £500,000 at $4.76\frac{7}{16}$; c/tfr American Ex. Co., £50,000 at $4.76\frac{7}{16}$; c/tfr London & So. West, £50,000 at $4.76\frac{7}{16}$; cables, $2.75	4,859,665.25		
	Cash from British Government Treasury account		50,000,000.00	[1] 30,081,272.55
Jan. 3	C/tfr Equitable Trust Co., £800,000 at $4.76\frac{7}{16}$; c/tfr Lloyd Bank, £600,000 at $4.76\frac{7}{16}$; c/tfr C. J. Hambro & Son, £200,000 at $4.76\frac{7}{16}$; c/tfr Farmers Loan & Tr., £200,000 at $4.76\frac{7}{16}$; c/tfr London City & Midland Bank, £1,000,000 at $4.76\frac{7}{16}$; cables, $2.38	13,340,252.38		
	Interest 1 day at 5% on £25,000 c/tfr bot for payment December 21, paid December 22		16.53	[1] 43,421,508.40
Jan. 4	C/tfr London City & Midland Bank, £300,000 at $4.76\frac{7}{16}$; c/tfr Standard Bank So. Af., £20,000 at $4.76\frac{7}{16}$; cables, $1.63	1,524,601.63		[1] 44,946,110.03
Jan. 5	C/tfr London City & Midland Bank, £100,000 at $4.76\frac{7}{16}$; cables $1.50	476,439.00		[1] 45,422,549.03
Jan. 10	C/tfr Equitable Trust Co., £500,000 at $4.76\frac{7}{16}$; c/tfr London City & Midland Bank, £100,000 at $4.76\frac{7}{16}$; cables, $1.75	2,858,626.75		48,281,175.78
Jan. 11	C/tfr, Morgan, Grenfell & Co., £165,000 at $4.76\frac{7}{16}$	786,121.87		
	Cash from Viscose & Co, £3,125 at $4.76\frac{7}{16}$ for account London Exchange Committee		14,936.32	[1] 49,052,361.33

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Jan. 24	C/tfr Lloyds Bank, Ltd., £400,000 at 4.76$\frac{7}{16}$; c/tfr Anglo So. Amer. Bank, £100,000 at 4.76$\frac{7}{16}$; c/tfr Hong Kong & Shanghai Banking Corp., £150,000 at 4.76$\frac{7}{16}$; c/tfr Guaranty Trust Co., £500,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bank, £500,000 at 4.76$\frac{7}{16}$; cable, $2.50	$7,861,221.25		[1] $56,913,582.58
Jan. 25	C/tfr London City & Midland Bank, £930,000 at 4.76$\frac{7}{16}$; c/tfr Equitable Trust Co., £250,000 at 4.76$\frac{7}{16}$; c/tfr London & So. West Bk., £400,000 at 4.76$\frac{7}{16}$; cables, $2.25	7,527,714.75		[1] 64,441,297.33
Jan. 26	C/tfr National Prov. Bank, £50,000 at 4.76$\frac{7}{16}$; c/tfr Barclays & Co., Ltd., £100,000 at 4.76$\frac{7}{16}$; c/tfr Intl. Banking Corp., £150,000 at 4.76$\frac{7}{16}$; c/tfr Standard Bank of South Africa, £30,000 at 4.76$\frac{7}{16}$; cable, $2.25	1,572,246.00		[1] 66,013,543.33
Jan. 27	C/tfr Lloyds Bank, Ltd., £375,000 at 4.76$\frac{7}{16}$; cable, $1.63	1,786,642.26		[1] 67,800,185.59
Jan. 29	C/tfr Barclays Bank, Ltd., £140,000 at 4.76$\frac{7}{16}$; cable, $1.63	667,014.13		[1] 68,467,199.72
Jan. 30	C/tfr Barclays Bank, Ltd., £500,000 at 4.76$\frac{7}{16}$; c/tfr Farmers Loan & Tr. Co., £150,000 at 4.76$\frac{7}{16}$; c/tfr London & Brazilian Bk., £20,000 at 4.76$\frac{7}{16}$; c/tfr Commercial Bk. of Scotland, £100,000 at 4.76$\frac{7}{16}$; cable, $2.25	3,668,571.00		[1] 72,135,770.72
Jan. 31	C/tfr London & So. West Bank, £200,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bank, £750,000 at 4.76$\frac{7}{16}$; cable, $2.50	4,526,158.75		[1] 76,661,929.47
Feb. 2	Cash from First National of New York a/c partn.		$5,000,000.00	[1] 71,661.929.47
	Interest, 1 day at 4½% on £20,000 c/tfr bought for payt. Jan. 30, paid Jan. 31		11.91	[1] 71,661,917.56
Feb. 2	C/tfr London City & Midland Bank, £600,000 at 4.76$\frac{7}{16}$; c/tfr Lloyds Bank, Ltd., £200,000 at 4.76$\frac{7}{16}$; c/tfr Equitable Trust Co., £200,000 at 4.76$\frac{7}{16}$; c/tfr London & So. West Bk., £150,000 at 4.76$\frac{7}{16}$; c/tfr Guaranty Trust Co., £200,000 at 4.76$\frac{7}{16}$; cable, $2.38	6,431,908.63		[1] 78,093,826.19
Feb. 3	C/tfr Lloyds Bank, Ltd., £250,000 at 4.76$\frac{7}{16}$; c/tfr Guaranty Trust Co., £200,000 at 4.76$\frac{7}{16}$; c/tfr Barclay & Co., Ltd., £75,000 at 4.76$\frac{7}{16}$; c/tfr London & City Midland Bank, Ltd., £50,000 at 4.76$\frac{7}{16}$; cable, $2.13	2,739,517.75		[1] 80,833,343.94
Feb. 5	Cash from British Government Treasury a/c in payment of loan		101,573,639.94	
	Interest to date		343,662.97	
	C/tfr Guaranty Trust Co., £400,000 at 4.76$\frac{7}{16}$; c/tfr Barclay & Co., Ltd., £140,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bank, £50,000 at 4.76$\frac{7}{16}$; c/tfr London & So. West Bk., £300,000 at 4.76$\frac{7}{16}$; cable, $2.25	4,240,296.00		16,843,662.97
Feb. 5	Repayment of partn. to First National Bank, New York	5,000,000.00		
	National City Bank	5,000,000.00		
	Bankers Trust Co., New York	6,500,000.00		
	Interest in account to Jan. 9 at 6%	77,893.45		
	Interest in account Jan. 9 to date at 5%	265,769.52		
Feb. 6	C/tfr Equitable Trust Co., £600,000 at 4.76$\frac{7}{16}$; c/tfr Guaranty Trust Co., £400,000 at 4.76$\frac{7}{16}$; c/tfr Lloyds Bank, Ltd., £200,000 at 4.76$\frac{7}{16}$; c/tfr C. G. Hambro & Son, £125,000 at 4.76$\frac{7}{16}$; c/tfr Brown Shipley & Co., £65,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bank, £455,000 at 4.76$\frac{7}{16}$; cable, $2.75	8,790,274.63		[1] 8,790,274.63
Feb. 7	Interest three days at 4½% on c/tfr £50,000 bought for payt. Feb. 3, paid Feb. 6		89.33	[1] 8,790,185.30
Feb. 7	C/tfr London City and Midland Bank, £950 at 4.76$\frac{7}{16}$; c/tfr Guaranty Trust Co., £700,000 at 4.76$\frac{7}{16}$; c/tfr Equitable Trust Co., £600,000 at 4.76$\frac{7}{16}$; c/tfr Lloyds Bank, Ltd., £300,000 at 4.76$\frac{7}{16}$; c/tfr Anglo So. Amer. Bank, £100,000 at 4.76$\frac{7}{16}$; c/tfr Natl. Provincial Bank of England, £100,000 at 4.76$\frac{7}{16}$; c/tfr American Express Co., £100,000 at 4.76$\frac{7}{16}$; c/tfr Commercial Bk. of Scotland, £100,000 at 4.76$\frac{7}{16}$; c/tfr Intl. Banking Corp., £350,000 at 4.76$\frac{7}{16}$; cable, $3.50	15,722,441.00		[1] 24,512,626.30

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Feb. 8	Interest two days at 4½% on c/tfr £250,000 bought for payment Feb. 3, paid Feb. 5		$297.77	
	C/tfr Guaranty Trust Co., £800,000 at 4.76 7/16; c/tfr Hongkong & Shanghai Banking Corp., £25,000 at 4.76 7/16; c/tfr Standard Bank of South Africa, £25,000 at 4.76 7/16; c/tfr Lazard Bros. & Co., £50,000 at 4.76 7/16; c/tfr Union Discount Co., £100,000 at 4.76 7/16; c/tfr American Express Co., £000,000 at 4.76 7/16; c/tfr Chartered Bank of India & China, £50,000 at 4.76⅜; c/tfr London City and Midland Bank, £1,250,000 at 4.76 7/16; cable, $3.50	$11,434,472.25		[1] $35,946,800.78
Feb. 9	C/tfr London City and Midland Bank, £125,000 at 4.76 7/16; c/tfr Guaranty Trust Co., £500,000 at 4.76 7/16; c/tfr Equitable Trust Co., £00,000 at 4.76 7/16; c/tfr Canadian Bank of Commerce, £200,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bank, £50,000 at 4.76 7/16; cable, $2.50	9,886,080.63		[1] 45,832,881.41
Feb. 10	C/tfr Lloyds Bank, £500,000 at 4.76 7/16; c/tfr Guaranty Trust Co., £200,000 at 4.76 7/16; c/tfr Lazard Bros. & Co., £20,000 at 4.76 7/16; c/tfr London City and Midland Bank, £350,000 at 4.76 7/16; cable, $2.25	5,097,883.50		[1] 50,930,764.91
Feb. 13	Cash from National City Bank a/c partn		5,000,000.00	
	C/tfr London City and Midland Bank, £375,000 at 4.76 7/16; c/tfr Equitable Trust Co., £400,000 at 4.76 7/16; c/tfr Guaranty Trust Co., £600,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bank., £100,000 at 4.76 7/16; c/tfr Lazard Bros. & Co., £80,000 at 4.76 7/16; c/tfr London & So. West Bk., £100,000 at 4.76 7/16; c/tfr Farmers Loan & Trust Co., £150,000 at 4.76 7/16; cable, $3.00	8,599,699.87		[1] 54,530,464.78
Feb. 14	C/tfr Lloyds Bank, Ltd., £400,000 at 4.76 7/16; c/tfr Coml. Bank of Scotland, £200,000 at 4.76 7/16; c/tfr Equitable Trust Co., £400,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bank, £50,000 at 4.76 7/16; c/tfr Intl. Banking Corp., £100,000 at 4.76 7/16; c/tfr London City and Midland Bank, £900,000 at 4.76 7/16; cable, $2.63	9,766,971.38		[1] 64,297,436.16
Feb. 15	C/tfr London City and Midland Bank, £750,000 at 4.76 7/16; c/tfr Bank of British North America, £100,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bank, £100,000 at 4.76 7/16; c/tfr Guaranty Trust Co., £800,000 at 4.76 7/16; c/tfr Union of London & Smith's Bank, £25,000 at 4.76 7/16; c/tfr Lazard Bros. & Co., £75,000 at 4.76 7/16; c/tfr Equitable Trust Co., £300,000 at 4 76 7/16; cable, $2.88	10,243,409.13		[1] 74,540,845.29
Feb. 16	Cash from Bankers Trust Co. a/c partn		5,000,000.00	[1] 69,540,845.29
	C/tfr Equitable Trust Co., £400,000 at 4.76 7/16; c/tfr Lloyds Bank, £100,000 at 4.76 7/16; c/tfr Natl. Prov. Bank of England, £110,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bank, £100,000 at 4.76 7/16; c/tfr Lazard Bros. & Co., £100,000 at 4.76 7/16; c/tfr American Express Co., £50,000 at 4.76 7/16; c/tfr Guaranty Trust Co., £500,000 at 4.76 7/16; c/tfr London City and Midland Bank, £700,000 at 4.76 7/16; cable, $3.25	9,814,615.75		[1] 79,355,461.04
Feb. 17	C/tfr London City and Midland Bank, £200,000 at 4.76 7/16; c/tfr Guaranty Trust Co., £250,000 at 4.76 7/16; cable, $1.63	2,143,970.38		[1] 81,499,431.42
Feb. 19	C/tfr Bank of British No. America, £100,000 at 4.76 7/16; c/tfr Equitable Trust Co., £100,000 at 4.76 7/16; c/tfr Farmers Loan & Tr. Co., £150,000 at 4.76 7/16; c/tfr Lloyds Bank, £200,000 at 4.76 7/16; c/tfr London City and Midland Bank, £350,000 at 4.76 7/16; cable, $3.38	4,287,939.88		
	Cash from First National Bank a/c partn		5,000,000.00	
	Cash from British Government Treasury a/c		50,000,000.00	
	Interest 1 day at 4½%, £200,000 c/tfr bought for payment Feb. 14, paid Feb. 15		119.11	[1] 30,787,252.19

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Feb. 20	C/tfr London City and Midland Bank, £200,000 at 4.76 7/16; c/tfr Union of London and Smiths Bank, £200,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bank, £100,000 at 4.76 7/16; c/tfr Farmers Bank & Tr. Co., £100,000 at 4.76 7/16; c/tfr Guaranty Trust Co., £100,000 at 4.76 7/16; c/tfr Lazard Bros. & Co., £60,000 at 4.76 7/16; c/tfr Standard Bank of South Africa, £20,000 at 4.76 7/16; c/tfr Barclay & Co., £250,000 at 4.76 7/16; c/tfr Royal Bank of Canada, 100,000 at 4.76 7/16; cable, $3.38	$5,383,747.13	----------------	[1] $36,170,999.32
	Cash from Astor Trust Co. a/c partn	----------------	$600,000.00	[1] 35,570,999.32
Feb. 23	C/tfr American Express Co., £100,000 at 4.76 7/16; c/tfr Equitable Trust Co., £700,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bank, £100,000 at 4.76 7/16; c/tfr London City and Midland Bank, £850,000 at 4.76 7/16; cable, $3.25	8,337,658.50	----------------	[1] 43,908,657.82
Feb. 24	C/tfr London City & Midland Bank, £100,000 at 4.76 7/16; c/tfr Canadian Bk. of Commerce, £400,000 at 4.76 7/16; c/tfr Equitable Tr. Co., £300,000 at 4.76 7/16; cable, $1.88	3,811,501.88	----------------	[1] 47,720,159.70
Feb. 26	C/tfr Lloyds Bank, Ltd., £400,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bank, £100,000 at 4.76 7/16; c/tfr Canadian Bk. of Commerce, £300,000 at 4.76 7/16; c/tfr Guaranty Tr. Co., £100,000 at 4.76 7/16; c/tfr Equitable Tr. Co., £50,000 at 4.76 7/16; c/tfr Bk. of British North America, £100,000 at 4.76 7/16; c/tfr London City & Midland Bk., £650,000 at 4.76 7/16; cable, $2.88	8,099,440.38	----------------	[1] 55,819,600.08
Feb. 27	C/tfr London City & Midland Bk., £325,000 at 4.76 7/16; c/tfr Guaranty Tr. Co., £100,000 at 4.76 7/16; c/tfr Natl. Bk. of So. Africa, £100,000 at 4.76 7/16; c/tfr Brown Shipley & Co., £100,000, at 4.76 7/16; cable, $2.38	2,977,736.75	----------------	[1] 58,797,336.83
Feb. 28	C/tfr Guaranty Tr. Co., £1,000,000 at 4.76 7/16; c/tfr Farmers Loan & Tr. Co., £350,000 at 4.76 7/16; c/tfr Intl. Bky. Corp., £100,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bk., £50,000 at 4.76 7/16; c/tfr Natl. Bk. of So. Africa, £215,000 4.76 7/16; c/tfr London & So. Western Bk., £50,000 at 4.76 7/16; c/tfr London City & Midland Bk., £650,000 at 4.76 7/16; cable, $3.38	11,505,969.00	----------------	[1] 70,303,305.83
Mar. 1	C/tfr London City & Midland Bk., £750,000 at 4.76 7/16; c/tfr Guaranty Tr. Co., £1,000,000 at 4.76 7/16; c/tfr Natl. Bk. of So. Africa, £165,000 at 4.76 7/16; cable, $2.25	9,123,780.37	----------------	----------------
	Cash from British Government Treasury account	----------------	50,000,000.00	[1] 29,427,086.20
Mar. 2	C/tfr Lloyds Bk., £300,000 at 4.76 7/16; c/tfr Union of London & Smiths, £200,000 at 4.76 7/16; c/tfr American Express Co., £75,000 at 4.76 7/16; c/tfr Royal Bk. of Canada, £50,000 at 4.76 7/16; cable, $1.75	2,977,736.12	----------------	[1] 32,404,822.32
Mar. 3	C/tfr Lloyds Bk., £100,000 at 4.76 7/16; c/tfr Anglo So. Amer. Bk., £100,000 at 4.76 7/16; c/tfr Intl. Bky. Corp., £200,000 at 4.76 7/16; c/tfr London City & Midland Bk., £250,000 at 4.76 7/16; c/tfr C. J. Hambro & Son., £50,000 at 4.76 7/16; cable, $2.00	3,335,064.50	----------------	[1] 35,739,886.82
Mar. 5	C/tfr Lazard Bros. & Co., £70,000 at 4.76 7/16; c/tfr Natl. Bk. of So. Africa, £110,000 at 4.76 7/16; c/tfr Guaranty Tr. Co., £150,000 at 4.76 7/16; c/tfr London City & Midland Bk., £350,000 at 4.76 7/16; cable, $2.38	3,239,777.38	----------------	[1] 38,979,664.20
Mar. 6	C/tfr London City & Midland Bk., £100,000 at 4.76 7/16; c/tfr Guaranty Tr. Co., £500,000 at 4.76 7/16; c/tfr Natl. Bk. of So. Africa, £105,000 at 4.76 7/16; cable, $1.75	3,358,886.12	----------------	[1] 42,338,550.32
Mar. 8	C/tfr Natl. Bk. of So. Africa, £250,000 at 4.76 7/16; c/tfr Lloyds Bk., Ltd., £100,000 at 4.76 7/16; c/tfr Union of London & Smiths, £100,000 at 4.76 7/16; c/tfr Farmers Loan & Tr. Co., £200,000 at 4.76 7/16; c/tfr Equitable Tr. Co., £100,000 at 4.76 7/16; cable, $2.13	3,573,283.38	----------------	----------------
	Interest 2 days at 4½% on cable transfer £200,000 bought for payt. Feb. 10th, paid Feb. 12th	----------------	238.22	[1] 45,911,595.48

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Mar. 14	C/tfr Natl. Bk. of So. Africa, £100,000 at 4.76$\frac{7}{16}$; c/tfr Farmers Loan & Tr. Co., £100,000 at 4.76$\frac{7}{16}$; c/tfr Standard Bk. of So. Africa, £30,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bk., £200,000 at 4.76$\frac{7}{16}$; cable, $2.25	$2,048,683.50		[1] $47,960,278.98
Mar. 15	C/tfr London City & Midland Bk., £350,000 at 4.76$\frac{7}{16}$; c/tfr Canadian Bk. of Commerce, £200,000 at 4.76$\frac{7}{16}$; c/tfr Natl. Bk. of So. Africa, £325,000 at 4.76$\frac{7}{16}$; cable, $1.75	4,168,829.87		[1] 52,129,108.85
Mar. 16	C/tfr Natl. Bk. of So. Africa, £110,000 at 4.76$\frac{7}{16}$; c/tfr Lloyds Bk., Ltd., £150,000 at 4.76$\frac{7}{16}$; c/tfr Barclay & Co., £100,000 at 4.76$\frac{7}{16}$; cable, $1.87	1,715,176.87		[1] 53,844,285.72
Mar. 17	C/tfr Natl. Bk. of So. Africa, £160,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bk., £100,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bk., £225,000 at 4.76$\frac{7}{16}$; cable, $1.63	2,310,723.51		[1] 56,155,009.23
Mar. 19	C/tfr London City & Midland Bk., £350,000 at 4.76$\frac{7}{16}$; cable, $1.38	1,667,532.63		[1] 57,822,541.86
Mar. 21	C/tfr Natl. Bk. of So. Africa, £170,000 at 4.76$\frac{7}{16}$; cable, $2.25	809,946.00		[1] 58,632,487.86
Mar. 22	C/tfr Guaranty Tr. Co., £400,000 at 4.76$\frac{7}{16}$; c/tfr Natl. Bk. of So. Africa, £110,000 at 4.76$\frac{7}{16}$; c/tfr Farmers Loan & Tr. Co., £100,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bk., £100,000 at 4.76$\frac{7}{16}$; c/tfr London & Southwestern Bk., Ltd., £100,000 at 4.76$\frac{7}{16}$; c/tfr Equitable Tr. Co., £200,000 at 4.76$\frac{7}{16}$; cable, $2.50	4,812,021.25		[1] 63,444,509.11
Mar. 23	C/tfr Guaranty Tr. Co., £200,000 at 4.76$\frac{7}{16}$; c/tfr Natl. Bk. of So. Africa, £160,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bk., £100,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bk. £200,000 at 4.76$\frac{7}{16}$; cable, $1.75	3,144,489.25		[1] 66,588,998.36
Mar. 24	C/tfr Canadian Bk. of Commerce, £250,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bk., £200,000 at 4.76$\frac{7}{16}$; cable, $1.25	2,143,970.00		[1] 68,732,968.36
Mar. 28	C/tfr London City & Midland Bk., £300,000 at 4.76$\frac{7}{16}$; c/tfr Ditto, £200,000 at 4.76$\frac{7}{16}$; c/tfr Guaranty Tr. Co., £100,000 at 4.76$\frac{7}{16}$; c/tfr Farmers Loan & Tr. Co., £100,000 at 4.76$\frac{7}{16}$; cable, $1.50	3,335,064.00		
	Cash from Guaranty Tr. Co. a/c partn		$5,000,000.00	[1] 67,068,032.36
Mar. 29	C/tfr Equitable Tr. Co., £200,000 at 4.76$\frac{7}{16}$; c/tfr Lloyds Bk., Ltd., £100,000 at 4.76$\frac{7}{16}$; c/tfr Capitol & Counties Bk., £100,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bk., £150,000 at 4.76$\frac{7}{16}$; cable, $1.75	2,620,408.00		
	Cash from Viscose Co. a/c London Exchg. Comm., use of Courtlands, Ltd., London		1,014,377.82	[1] 68,674,062.54
Mar. 30	C/tfr London City & Midland Bank, £200,000 at 4.76$\frac{7}{16}$; c/tfr do, £100,000 at 4.76$\frac{7}{16}$; c/tfr do, £100,000 at 4.76$\frac{7}{16}$; c/tfr Canadian Bank of Commerce, £300,000 at 4.76$\frac{7}{16}$; c/tfr National Bank of So. Africa, £210,000 at 4.76$\frac{7}{16}$; c/tfr Lloyds Bank, Ltd., £100,000 at 4.76$\frac{7}{16}$; c/tfr Angl. So. Amer. Bank, £300,000 at 4.76$\frac{7}{16}$; cable, $2.38	6,241,333.63		
	Cash from British Government Treasury a/c		50,000,000.00	[1] 24,915,396.17
Mar. 31	C/tfr Lloyds Bank, Ltd., £100,000 at 4.76$\frac{7}{16}$; c/tfr Equitable Trust Co., £200,000 at 4.76$\frac{7}{16}$; c/tfr London City and Midland Bank, £250,000 at 4.76$\frac{7}{16}$; cable, $2.50	2,620,408.75		[1] 27,535,804.92
Apr. 2	C/tfr Equitable Trust Co., £350,000 at 4.76$\frac{7}{16}$; c/tfr London City and Midland Bank, £350,000 at 4.76$\frac{7}{16}$; c/tfr do, £75,000 at 4.76$\frac{7}{16}$; c/tfr National Bank of South Africa, £100,000 at 4.76$\frac{7}{16}$; c/tfr Union of London and Smiths Bank, £250,000 at 4.76$\frac{7}{16}$; cable, $2	5,359,923.88		[1] 32,895,728.80
Apr. 3	C/tfr Lloyds Bank, Ltd., £100,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bank, £500,000 at 4.76$\frac{7}{16}$; c/tfr do, £150,000 at 4.76$\frac{7}{16}$; c/tfr do, £100,000 at 4.76$\frac{7}{16}$; cable, $2.25	4,049,721.00		[1] 36,945,449.80
Apr. 4	C/tfr London City & Midland Bank, £100,000 at 4.76$\frac{7}{16}$; c/tfr Guaranty Trust Co., £450,000 at 4.76$\frac{7}{16}$; cable, $1.25	2,620,407.50		[1] 39,565,857.30
Apr. 5	C/tfr National Bank of So. Africa, £200,000 at 4.76$\frac{7}{16}$; c/tfr Guaranty Trust Co., £300,000 at 4.76$\frac{7}{16}$; c/tfr London City & Midland Bank, £100,000 at 4.76$\frac{7}{16}$; cable, $1.63	2,858,626.63		[1] 42,424,483.93

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

HIS BRITANNIC MAJESTY'S GOVERNMENT LOAN—MORGAN, GRENFELL & CO. SPECIAL A/C CLIENT #1—IN ACCOUNT WITH J. P. MORGAN & CO.

[Transcript made May 2, 1935]

Date	Description	Debit	Credit	Balance
	Client #1 principal due on loan Apr. 6, 1917: Participation: Bankers $5,000,000.00 Astor 600,000.00 Guaranty 5,000,000.00 First 5,000,000.00 City 5,000,000.00 J. P. M. & Co. 42,424,483.93 63,024,483.93	$63,024,483.93		

SPECIAL LOAN TO MORGAN GRENFELL & CO., A/C CLIENT #1, IN ACCOUNT WITH J. P. MORGAN & CO.

Date	Description	Debit	Credit	Balance
Apr. 6	Forward			[1] $42,424,483.93
Apr. 20	To cable transfer Equitable Tr. Co., £500,000 at $4.76\frac{7}{16}$, cable, 2.00	$2,382,189.50		[1] 44,806,673.43
Apr. 21	To cable transfer Equitable Tr. Co., £300,000 at $4.75\frac{7}{16}$; to cable transfer Anglo So. Amer. Bk., £50,000 at $4.76\frac{7}{16}$; to cable transfer Barclay & Co., £200,000 at $4.76\frac{7}{16}$; to cable transfer London City & Midl. Bk., £100,000 at $4.76\frac{7}{16}$; to cable transfer Lloyds Bk., Ltd., £300,000 at $4.76\frac{7}{16}$; cable, 2.00	4,526,158.25		[1] 49,332,831.68
Apr. 23	To cable transfer Natl. Bk. of So. Africa, £320,000 at $4.76\frac{7}{16}$; to cable transfer London City & Midl. Bk., £200,000 at $4.76\frac{7}{16}$; to cable transfer Guaranty Tr. Co., £250,000 at $4.76\frac{7}{16}$; to cable transfer Lloyds Bk., £100,000 at $4.76\frac{7}{16}$; cable 2.25	4,145,008.50		[1] 53,477,840.18
Apr. 24	To cable transfer London City Midl. Bk., £750,000 at $4.76\frac{7}{16}$; to cable transfer Equitable Tr. Co., £600,000 at $4.76\frac{7}{16}$; to cable transfer Security Tr. Co., £250,000 at $4.76\frac{7}{16}$; to cable transfer Natl. Bk. of So. Africa, £210,000 at $4.76\frac{7}{16}$; to cable transfer Canadian Bk. of Commerce, £200,000 at $4.76\frac{7}{16}$; to cable transfer Farmers Loan & Tr. Co., £100,000 at $4.76\frac{7}{16}$; to cable transfer Hong Kong & Shanghai Bkg. Corp., £30,000 at $4.76\frac{7}{16}$; to cable transfer Intl. Bkg. Corp., £200,000 at $4.76\frac{7}{16}$; to cable transfer London Co. & Westminster Bk., £50,000 at $4.76\frac{7}{16}$; cable, 3.25	11,386,859.50		[1] 64,864,699.68
Apr. 25	Cash from Viscose Co. a/c London Exch. Com. for a/c Courtaulds, Ltd. (per contra)		$980,962.80	
	Cable transfer London City & Midl. Bk., £850,000 at $4.76\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £160,000 at $4.76\frac{7}{16}$; cable transfer Lloyds Bk., Ltd., £100,000 at $4.76\frac{7}{16}$; cable transfer Natl. Prov. Bk. of England, £75,000 at $4.76\frac{7}{16}$; cable transfer capital & Counties Bk., Ltd., £60,000 at $4.76\frac{7}{16}$; cable transfer Farmers Loan & Tr. Co., £100,000 at $4.76\frac{7}{16}$; cable transfer Guaranty Tr. Co., £300,000 at $4.76\frac{7}{16}$; cable, 2.75	7,837,399.63		[1] 71,721,136.51
Apr. 26	Cash from British Govt. Treas. a/c		50,000,000.00	
	Cash from British Govt. Treas. a/c for int. chge		804,950.60	
	Cash from British Govt. Treas. a/c		9,647,862.12	
	Cable transfer London City & Midl. Bk., £850,000 at $4.76\frac{7}{16}$; cable transfer Intl. Bkg. Corp., £400,000 at $4.76\frac{7}{16}$; cable transfer Con. Bk. of Commerce, £300,000 at $4.76\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £125,000 at $4.76\frac{7}{16}$; cable transfer Guaranty Tr. Co., £100,000 at $4.76\frac{7}{16}$; cable transfer Lazard Bros. & Co., £50,000 at $4.76\frac{7}{16}$; cable transfer Equitable Tr. Co., £200,000 at $4.76\frac{7}{16}$; cable 2.75	9.647,862.12		
	Int. in acct. to Mar. 1, 1917, at 5%, 189,689.92; int. in acct. to Mar. 1, 1917, at 6%, 615,260.68	804,950.60		
	Payt. to Bankers, Tr. Co. on a/c partn. of $5,000,000 2,000,000.00 Payt. to Astor Tr. Co. on a/c partn. of $600,000 250,000.00 Payt. to Guaranty Tr. Co. on a/c partn. $5,000,000 2,000,000.00	4,250,000.00		[1] 25,971,136.51

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Apr. 27	Cable transfer London City, & Midl. Bk., £1,020,000, at 4.76$\frac{7}{16}$; N/BK South Africa, £210,000; cable, 1.88; Farmers Loan & Trust Co., £100,000	$6,336,620.63		
	Int. I. D. at 5% on £60,000, c/tfr on Capital & Counties Bk., Ltd		$39.70	
	Int. I. D. at 5% on £200,000 c/tfr Cdn. Bk. of Commerce		132.34	
	Cash from British Govt. Treas. a/c		6,336,448.59	[1] $25,971,136.51
Apr. 28	Cable transfer London City & Midl. Bk., £100,000, at 4.76$\frac{7}{16}$; cable transfer union Bk. of Canada, £250,000, at 4.76$\frac{7}{16}$; cable transfer Lloyds Bk., Ltd., £300,000, at 4.76$\frac{7}{16}$; cable transfer Natl. Provincial Bk. of England, £50,000, at 4.76$\frac{7}{16}$; cable transfer Intl. Bkg. Corp., £100,000, at 4.76$\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £400,000, at 4.76$\frac{7}{16}$; cable 2.50	5,717,252.50		
	Cash from British Govt. Treas. a/c		5,717,252.50	[1] 25,971,136.51
Apr. 30	Cable transfer Intl. Bkg. Corp., £400,000, at 4.76$\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £400,000, at 4.76$\frac{7}{16}$; cable transfer Amer. Express Co., £85,000, at 4.76$\frac{7}{16}$; cable transfer London City & Midl. Bk., £600,000, at 4.76$\frac{7}{16}$; cable transfer London & Southwestern Bk., £100,000, at 4.76$\frac{7}{16}$; cable 3.13	7,551,537.50		
	Cash from British Govt. Treas. a/c		7,551,537.50	[1] 25,971,136.51
May 1	Cable transfer Intl. Bkg. Corp., £500,000, at 4.76$\frac{7}{16}$; cable transfer Anglo So. Amer. Bk., £200,000, at 4.76$\frac{7}{16}$; cable transfer Union of London & Smiths, £100,000, at 4.76$\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £225,000, at 4.76$\frac{7}{16}$; cable transfer London City & Midl. Bk., £325,000, at 4.76$\frac{7}{16}$; cable transfer Guaranty Tr. Co., £300,000, at 4.76$\frac{7}{16}$; cable transfer Equitable Tr. Co., £800,000, at 4.76$\frac{7}{16}$; cable transfer Union Bk. of Canada, £175,000, at 4.76$\frac{7}{16}$; cable, 3.38	12,506,487.75		
	Cash from British Govt. Treas. a/c		12,506,487.75	[1] 25,971,136.51
May 2	Cable transfer Intl. Bkg. Corp., £500,000, at 4.76$\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £415,000, at 4.76$\frac{7}{16}$; cable transfer Guaranty Tr. Co., £300,000, at 4.76$\frac{7}{16}$; cable transfer London City & Midl. Bk., £650,000, at 4.76$\frac{7}{16}$; cable, 2.00	8,885,561.37		
	Int., 1 day at 5% on c/tfr, £420,000 on London City & Midl. Bk		277.92	
	Cash from Bankers Tr. Co., a/c Partn., $3,400,000		3,400,000.00	[1] 31,456,419.96
May 3	Cable transfer Intl. Bkg. Corp., £500,000, at 4.76$\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £415,000, at 4.76$\frac{7}{16}$; cable transfer Union Bk. of Canada, £75,000, at 4.76$\frac{7}{16}$; cable transfer Lazard Bros. & Co., £75,000, at 4.76$\frac{7}{16}$; cable transfer London City & Midl. Bk., £360,000, at 4.76$\frac{7}{16}$; cable, 2.50	6,789,236.87		
	Cash from Union Tr. Co., N. Y., a/c Partn		500,000.00	[1] 37,745,656.83
May 4	Cable transfer Intl. Bkg. Corp., £500,000, at 4.76$\frac{7}{16}$; cable transfer Union Bk. of Canada, £300,000, at 4.76$\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £210,000, at 4.76$\frac{7}{16}$; cable transfer London & Southwestern Bk., £200,000, at 4.76$\frac{7}{16}$; cable transfer Equitable Tr. Co., £350,000, at 4.76$\frac{7}{16}$; cable transfer Guaranty Tr. Co., £300,000, at 4.76$\frac{7}{16}$; cable transfer Farmers Loan & Tr. Co., £100,000, at 4.76$\frac{7}{16}$; cable transfer London City & Midl. Bk., £1,120,000, at 4.76$\frac{7}{16}$; cable, 3.38	14,674,278.38		[1] 52,419,935.21
May 5	Cable transfer Guaranty Tr. Co., £1,000,000 at 4.76 $\frac{7}{16}$; cable transfer Lloyds Bk., £300,000 at 4.76 $\frac{7}{16}$; cable transfer Natl. Bk. of So. Africa, £500,000 at 4.76 $\frac{7}{16}$; cable transfer Equitable Tr. Co., £150,000 at 4.76 $\frac{7}{16}$; cable transfer Union Bk. of Canada, £100,000 at 4.76$\frac{7}{16}$; cable transfer London City & Midl. Bk., £600,000 at 4.76$\frac{7}{16}$; cable $2.50	12,625,596.25		[1] 65,045,531.46

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
May 7	Cable transfer Guaranty Tr. Co., £1,000,000 at 4.76 7/16; cable transfer Natl. Bk. of So. Africa, £550,000 at 4.76 7/16; cable transfer Union Bk. of Canada, £450,000 at 4.76 7/16; cable transfer Farmers Loan & Tr. Co., £100,000 at 4.76 7/16; cable transfer Intl. Bkg. Corp., £250,000 at 4.76 7/16; cable transfer London City & Midl. Bk., £950, 000 at 4.76 7/16; cable transfer Amer. Express Co., £80,000 at 4.76 7/16; cable $2.75	$16, 103, 590. 25		
	Cash from British Govt. Treas. a/c		$16, 103, 590. 25	$[1] 65,045,531. 46
May 8	Cable transfer Intl. Bkg. Corp., £300,000 at 4.76 7/16; cable transfer London Jt. Stock Bk., £200,000 at 4.76 7/16; cable transfer Union of London & Smiths Bk., £50,000 at 4.76 7/16; cable transfer Farmers Loan & Tr. Co., £100,000 at 4.76 7/16; cable transfer Natl. Bk. of So. Africa, £175,000 at 4.76 7/16; cable transfer Guaranty Tr. Co., £500,000 at 4.76 7/16; cable transfer Anglo So. Amer. Bk., £200,000 at 4.76 7/16; cable transfer London City & Midl. Bk., £600,000 at 4.76 7/16; cable transfer Union Bk. of Canada, £100,000 at 4.76 7/16; cable $3.38	10, 600, 737. 75		
	Cash from Viscose & Co. a/c London Exch. committee for use of Courtaulds, Ltd		59, 812. 14	
	Cash from British Govt. Treas. a/c		10, 540, 925. 61	[1] 65, 045, 531. 46
May 9	Cable transfer Anglo So. Amer. Bk., £200,000 at 4.76 7/16; cable transfer Farmers Loan & Tr. Co., £100,000 at 4.76 7/16; cable transfer Lloyds Bk., £100,000 at 4.76 7/16; cable transfer Natl. Bk. of So. Africa, £325,000 at 4.76 7/16; cable transfer Guaranty Tr. Co., £700,000 at 4.76 7/16; cable transfer Equitable Tr. Co., £100,000 at 4.76 7/16; cable transfer London City & Midl. Bk., £100,000 at 4.76 7/16; cable $2.75	7, 742, 112. 12		
	Cash from British Govt. Treas. a/c		7, 742, 112. 12	[1] 65, 045, 531. 46
May 10	Cable transfer London Co. & Westminster Bk., £50,000 at 4.76 7/16; cable transfer London City & Midl. Bk., £1,100,000 at 4.76 7/16; cable transfer Farmers Loan & Tr. Co., £200,000 at 4.76 7/16; cable transfer, Anglo South American Bank, £200,000 at 4.76 7/16; cable transfer Equitable Trust Co., £300,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £200,000 at 4.76 7/16; cable charges $2.38	10, 005, 189. 88		
May 10	Cash from British Govt. Treasury, a/c		10, 005, 189. 88	[1] 65, 045, 531. 46
May 11	Cable transfer Union Bank of Canada, £300,000 at 4.76 7/16; cable transfer Anglo South American Bank, £100,000 at 4.76 7/16; cable transfer National Bank South Africa, £210,000 at 4.76 7/16; cable transfer Lloyds Bank, £300,000 4.76 7/16; cable transfer Guaranty Trust Co., £,1,000,000 at 4.76 7/16; cable transfer, London City & Midland Bank, £100,000 at 4.76 7/16; cable Equitable Trust Co., £1,000,000 at 4.76 7/16; cable $2.88	18, 628, 709. 13		
May 11	Cash from British Govt. Treasury a/c		18, 628, 709. 13	[1] 65, 045, 531. 46
May 12	Cable transfer, Lazard Brothers & Co., £100,000 at 4.76 7/16; cable transfer London City & Midland Bank, £500,000 at 4.76 7/16; cable transfer National Bank South Africa, £190,000 at 4.76 7/16; cable $1.75	3, 763, 858. 00		
	Interest one day at 5% on £ 0,000 cable transfer bought for payment May 8 paid May 9		33. 09	
	Cash from British Govt. Treasury, a/c		3, 763, 824. 91	[1] 65, 045, 531. 46
May 14	Cable transfer National Bank of South Africa, £500,000 at 4.76 7/16; cable transfer Lazard Brothers & Co., £100,000 at 4.76 7/16; cables $1.38	2, 858, 626. 38		
	Cash from British Govt. Treasury a/c		2, 858, 626. 38	[1] 65, 045, 531. 46
May 15	Cable transfer National Bank of South Africa, £350,000 at 4.76 7/16; cable transfer Anglo South American Bank, £300,000 at 4.76 7/16; cable transfer Royal Bank of Canada, £100,000 at 4.76 7/16; cable transfer London & Midland City Bank, £300,000 at 4.76 7/16; cables $2.00	5, 002, 595. 75		
	Cash from A. A. Housmann & Co. a/c A. G. Schiff & Co		250, 000. 00	
	Cash from British Govt. Treasury a/c		5, 002, 595. 75	[1] 64, 795, 531. 46

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1 IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
May 16	Cable transfer London & Midland City Bank, £300,000 at 4.76 7/16; cable transfer National Bank of South Africa, £210,000 at 4.76 7/16; cable transfer Union Bank of Canada, £200,000 at 4.76 7/16; cables $1.88	$3,382,708.13		
	Cash from British Govt. Treasury a/c		$3,382,708.13	[1] $64,795,531.46
May 19	Cable transfer Lloyds Bank, £300,000 at 4.76 7/16; cable transfer National Bank South Africa, £400,000 at 4.76 7/16; cable transfer London City & Midland Bank, £400,000 at 4.76 7/16; cable charges, $1.63	5,240,814.13		
	Cash from British Govt. Treasury		5,240,814.13	[1] 64,795,531.46
May 21	Cable transfer London City & Midland Bank, £150,000 at 4.76 7/16; cable transfer National Bank of South Africa, £150,000 at 4.76 7/16; cables $1.58	1,429,313.88		
	Cash from British Govt. Treasury a/c		1,429,313.88	[1] 64,795,531.46
May 23	Cable transfer Anglo South American Bank, £100,000 at 4.76 7/16; cable transfer National Bank South Africa, £210,000; cable charges $1.50	1,476,957.75		
	Cash from British Govt. Treasury		1,476,957.75	[1] 64,795,531.46
May 24	Cable transfer National Bank of South Africa, £525,000 at 4.76 7/16; cable transfer Capital & Counties Bank, £100,000 at 4.76 7/16; cable charges, 1.50	2,977,735.87		
	Cash from British Govt. Treasury a/c		2,977,735.87	[1] 64,795,531.46
May 25	Cable transfer Equitable Trust Co., £75,000 at 4.76 7/16; cable transfer Union Bank of Canada, £600,000 at 4.76 7/16; cable transfer Farmers Loan & Trust Co., £100,000 at 4.76 7/16; cable transfer National Bank of South Africa, £275,000; cable transfer London City & Midland Bank, £500,000 at 4.76 7/16; cable transfer American Express Co., £75,000 at 4.76 7/16; cables, 2.75	7,742,112.11		
	Cash from British Govt. Treasury a/c		7,742,112.11	[1] 64,795,531.46
May 26	Cable transfer Union Bank of Canada, £125,000 at 4.76 7/16; cable transfer National Bank of So. Africa, £650,000 at 4.76 7/16; cable transfer London & Southwestern Bank, £80,000 at 4.76 7/16; cable transfer Standard Bank of South Africa, £20,000 at 4.76 7/16; cable transfer London City & Midland Bank, £200,000 at 4.76 7/16; cable transfer American Express Company, £75,000 at 4.76 7/16; cable transfer Brown, Shipley & Co., £50,000 at 4.76 7/16; cables 3.00	5,717,253.00		
	Cash from British Govt. Treasury a/c		5,717,253.00	[1] 64,795,531.46
May 29	Cable transfer Lloyds Bank, £200,000 at 4.76 7/16; cable transfer National Bank of South Africa, £350,000 at 4.76 7/16; cable transfer Anglo-South American Bank, £100,000 at 4.76 7/16; cable transfer Equitable Trust Co., £225,000 at 4.76 7/16; cable transfer Union Bank of Canada, £200,000 at 4.76 7/16; cable transfer American Express Company, £100,000 at 4.76 7/16; cable transfer London City & Midland Bank, £400,000 at 4.76 7/16; cable 2.88	7,503,893.51		
	Cash from British Government Treasury a/c		7,503,893.51	[1] 64,795,531.46
May 31	Cable transfer London City & Midland Bank, £400,000 at 4.76 7/16; cable transfer Guaranty Trust Company, £500,000 at 4.76 7/16; cable transfer Equitable Trust Company, £500,000 at 4.76 7/16; cable transfer Farmers Loan and Trust Company, £150,000 at 4.76 7/16; cable transfer Union of London and Smiths Bk., £50,000 at 4.76 7/16; cable transfer Hongkong & Shanghai Banking Corp., £100,000 at 4.76 7/16; cable transfer Lloyds Bank, Ltd., £100,000 at 4.76 7/16; cable transfer National Bank of South Africa, £500,000 at 4.76 7/16; cable transfer Anglo South American Bank, £100,000 at 4.76 7/16; cables, 4.25	11,434,504.25		
	Cash from British Government Treasury a/c		11,434,504.25	[1] 64,795,531.46

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
June 1	Cable transfer Anglo South American Bank, £100,000 at $4.76\frac{7}{16}$; Cable transfer Standard Bank of South Africa, £40,000 at $4.76\frac{7}{16}$; cable transfer National Bank of South Africa, £225,000 at $4.76\frac{7}{16}$; cable transfer Lloyds Bank, Ltd., £300,000 at $4.76\frac{7}{16}$; cable transfer Guaranty Trust Company, £750,000; cable transfer London City & Midland Bank, £550,000 at $4.76\frac{7}{16}$; cable, 2.50	$9,361,999.37		[1] $74,157,530.83
Jun. 1	Cash from British Government Treasury a/c		$9,361,999.37	[1] 64,795,531.46
Jun. 2	Cable transfer London City and Midland Bank, £300,000 at $4.76\frac{7}{16}$; cable tranfer National Bank of South Africa, £700,000 at $4.76\frac{7}{16}$; cable transfer Lloyds Bank, Ltd., £300,000 at $4.76\frac{7}{16}$; cable transfer standard Bank of South Africa, £30,000 at $4.76\frac{7}{16}$; cable transfer Union of London & Smiths Bank, £150,000 at $4.76\frac{7}{16}$; cable transfer Union Bank of Canada, £200,000 at $4.76\frac{7}{16}$; cables, $2.50	8,004,152.50		
	Cash from British Government Treasury a/c		8,004,152.50	[1] 64,795,531.46
Jun. 4	Cable transfer Equitable Trust Co., £500,000 at $4.76\frac{7}{16}$; cable transfer National Bank of South Africa, £400,000 at $4.76\frac{7}{16}$; cable transfer Royal Bank of Canada, £45,000 at $4.76\frac{7}{16}$; cable transfer London City and Midland Bank, £1,500,000 at $4.76\frac{7}{16}$; cables, $2.00	11,648,898.88		
	Cash from British Government Treasury a/c		11,648,898.88	[1] 64,795,531.46
Jun. 5	Cable transfer London City and Midland Bank, £200,000 at $4.76\frac{7}{16}$; cable transfer Lloyds Bank Ltd., £50,000 at $4.76\frac{7}{16}$; cable transfer Union Bank of Canada, £300,000 at $4.76\frac{7}{16}$; cable transfer Union of London & Smiths Bank, £100,000 at $4.76\frac{7}{16}$; cable transfer Guaranty Trust Company, £200,000 at $4.76\frac{7}{16}$; cable transfer National Bank of South Africa, £475,000 at $4.76\frac{7}{16}$; cable transfer Hong Kong & Shanghai Banking Corp., £50,000 at $4.76\frac{7}{16}$; cable charge, $2.88	6,551,018.50		
	Cash from British Government Treasury a/c		6,551,018.50	[1] 64,795,531.46
Jun. 6	Cable transfer Intl. Banking Corp., £800,000 at $4.76\frac{7}{16}$; cable transfer Equitable Trust Company, £300,000 at $4.76\frac{7}{16}$; cable transfer Royal Bank of Canada, £210,000 at $4.76\frac{7}{16}$; cable transfer Anglo South American Bank, £150,000 at $4.76\frac{7}{16}$; cable transfer Union Bank of Canada, £150,000 at $4.76\frac{7}{16}$; cable transfer Canadian Bank of Commerce, £100,000 at $4.76\frac{7}{16}$; cable transfer National Bank of South Africa, £350,000 at $4.76\frac{7}{16}$; cable transfer Guaranty Trust Company, £250,000 at $4.76\frac{7}{16}$; cable transfer Farmers Loan and Trust Company, £200,000 at $4.76\frac{7}{16}$; cable transfer London City and Midland Bank, £350,000 at $4.76\frac{7}{16}$; cables, $5.01	13,626,117.51		
	Cash from British Government Treasury a/c		13,626,117.51	[1] 64,795,531.46
Jun. 7	Cable transfer Union Bank of Canada, £100,000 at $4.76\frac{7}{16}$; cable transfer Farmers Loan & Trust Company, £100,000 at $4.76\frac{7}{16}$; cable transfer National Bank of South Africa, £250,000 at $4.76\frac{7}{16}$; cable transfer Equitable Trust Company, £400,000 at $4.76\frac{7}{16}$; cable transfer Lloyds Bank, Ltd., £100,000 at $4.76\frac{7}{16}$; cable transfer Cox & Company, £100,000 at $4.76\frac{7}{16}$; cable transfer London City & Midland Bank, £800,000 at $4.76\frac{7}{16}$; cables, $2.75	8,814,096.50		
	Cash from British Government Treasury a/c		8,814,096.50	[1] 64,795,531.46
Jun. 8	Cable transfer London City & Midland Bank, £150,000 at $4.76\frac{7}{16}$; cable transfer Union Bank of Canada, £400,000 at $4.76\frac{7}{16}$; cable transfer National Bank of South Africa, £450,000 at $4.76\frac{7}{16}$; cable transfer Canadian Bank of Commerce, £150,000 at $4.76\frac{7}{16}$; cable, $2.00	5,479,033.25		
	Cash from British Government Treasury a/c		5,479,033.25	[1] 64,795,531.46

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—**Continued**

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Jun. 9	Cable transfer Union Bank of Canada, £200,000 at 4.76 7/16; cable transfer Anglo South American bank, £'00,000 at 4.76 7/16; cable National Bank of South Africa, £625,000 at 4.76 7/16; cable transfer equitable Trust Co., £250,000 at 4.76 7/16; cable transfer London City & Midland bank, £150,000 at 4.76 7/16; cables, $2.38	$6,312,799.25		
	Cash from British Government Treasury a/c		$6,312,799.25	[1]$ 64,795,531.46
	Cash from Guaranty Trust Co. a/c partn. Jun. 5		7,000,000.00	[1] 57,795,531.46
Jun. 11	Cable transfer Union Bank of Canada, £200,000 at 4.76 7/16; cable transfer Glynn Mills Currie & Co., £150,000 at 4.76 7/16; cable transfer London Joint Stock Bank, £290,000 at 4.76 7/16; cable transfer London & South Western Bank, £160,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £500,000 at 4.76 7/16; cable transfer National Bank of South Africa, £350,000 at 4.76 7/16; cable transfer London City & Midland Bank, £150,000 at 4.76 7/16; cables, $3.00	8,575,878.00		
	Cash from British Government Treasury a/c		8,775,878.00	[1] 57,795,531.46
Jun. 12	Cable transfer Union of Canada, £100,000 at 4.76 7/16; cable transfer Lloyds Bank, Ltd., £200,000 at 4.76 7/16; cable transfer Anglo South American Bank, £100,000 at 4.76 7/16; cable transfer National Bank of South Africa, £500,000 at 4.76 7/16; cable transfer Guaranty Trust Co. £500,000 at 4.76 7/16; cable transfer Union Discount Company of London, £100,000 at 4.76 7/16; cable transfer London City & Midland Bank, £150,000 at 4.76 7/16; cable, $3.00	7,861,221.75		
	Cash from British Government Treasury a/c		7,861,221.75	[1] 57,795,531.46
Jun. 13	Cable transfer London City & Midland Bank, £500,000 at 4.76 7/16; cable transfer Union Bank of Canada, £300,000 at 4.76 7/16; cable transfer Lloyds Bank, Ltd., £400,000 at 4.76 7/16; cable transfer Standard Bank of South Africa, £30,000 at 4.76 7/16; cable transfer National Bank of South Africa, £500,000 at 4.76 7/16; cable transfer Equitable Trust Co., £100,000 at 4.76 7/16; cable transfer Intl. Banking Corp., £100,000 at 4.76 7/16; cable transfer London County & Western Bank, £50,000 at 4.76 7/16; cable transfer Union Discount Co. of London, £50,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £1,000,000 at 4.76 7/16; cables, $3.63	14,436,059.88		
	Cash from British Government Treasury		14,436,059.88	[1] 57,795,531.45
Jun. 14	Cable transfer National Bank of South Africa, £300,000 at 4.76 7/16; cable transfer capital & Counties Bank, £100,000 at 4.76 7/16; cable transfer Equitable Trust Company, £500,000 at 4.76 7/16; cable transfer Guaranty Trust Company, £700,000 at 4.76 7/16; cable transfer Hong Kong & Shanghai Banking Corp., £50,000 at 4.76 7/16; cable transfer Union Bank of Canada, £100,000 at 4.76 7/16; cable transfer Intl. Banking Corp., £100,000 at 4.76 7/16; cable transfer Lloyds Bank, Ltd., £300,000 at 4.76 7/16; cable transfer London City & Midland Bank, £1,150,000 at 4.76 7/16; cables, $3.38	15,246,003.38		
	Cash from British Government Treasury		15,246,003.38	
	Interest 1 day at 5% on cable transfer, £150,000 bought for payment June 11, paid June 12		99.26	[1] 57,795,432.20
Jun. 15	Cable transfer Union Bank of Canada, £400,000 at 4.76 7/16; cable transfer Anglo South American Bank, £250,000 at 4.76 7/16; cable transfer Intl. Banking Corp., £200,000 at 4.76 7/16; cable transfer London City & Midland Bank, £400,000 at 4.76 7/16; cable transfer National Bank of South Africa, £300,000 at 4.76 7/16; cable transfer Equitable Trust Co., £250,000 at 4.76 7/16; cable transfer American Express Co., £100,000 at 4.76 7/16; cables, $2.63	9,052,315.13		
	Interest credited June 14, paid British Government Treasury a/c	99.26		
	Cash from British Government Treasury		9,052,315.13	57,795,531.46

[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Jun. 16	Cable transfer Union Bank of Canada, £200,000 at 4.76 7/16; cable transfer Lloyds Bank, Ltd., £200,000 at 4.76 7/16; cable transfer Commercial Bank of Scotland; £250,000 at 4.76 7/16; cable transfer Anglo American Bank, £250,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £500,000 at 4.76 7/16; cable transfer Equitable Trust Co., £500,000 at 4.76 7/16; cable transfer London City & Midland Bank, £700,000 at 4.76 7/16; cable transfer National Bank of South Africa, £900,000 at 4.76 7/16; cable transfer Farmers Loan & Trust Co., £100,000 at 4.76 7/16; cables, $3.25	$16, 198, 878. 25		
	Cash from British Government Treasury a/c		$16, 198, 878. 25	[1]$ 57,795, 531. 46
Jun. 18	Cable transfer Guaranty Trust Co., £1,000,000 at 4.76 7/16; cable transfer National Bank of South Africa, £750,000 at 4.76 7/16; cable transfer Equitable Trust, £350,000 at 4.76 7/16; cable transfer Anglo South American bank, £200,000 at 4.76 7/16; cable transfer Farmers Loan & Trust Co., £100,000 at 4.76 7/16; cable transfer London & South Western Bank, £100,000 at 4.76 7/16; cable transfer London City & Midland Bank, £400,000 at 4.76 7/16; cables, $2.50	13, 816, 690. 00		
	Cash from British Government a/c		13, 816, 690. 00	[1] 57, 795, 531. 46
Jun. 19	Cable transfer Union Bank of Canada, £200,000 at 4.76 7/16; cable transfer National Bank of South Africa, £300,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £1,000,000 at 4.76 7/16; cable transfer London City & Midland Bank, £500,000 at 4.76 7/16; cable transfer Hongkong & Shanghai Banking Corp., £100,000 at 4.76 7/16; cable transfer Equitable Trust Co., £400,000 at 4.76 7/16; cables, $2.38	12, 149, 158. 63		
	Cash from British Government Treasury a/c		12, 149, 158. 63	[1] 57, 795, 53146
Jun. 20	Cable transfer Farmers Loan & Trust Co., £200,000 at 4.76 7/16; cable transfer Royal Bank of Canada, £200,000 at 4.76 7/16; cable transfer Anglo South American Bank; £250,000 at 4.76 7/16; cable transfer National Bank of South Africa, £250,000 at 4.76 7/16; cable transfer Barclays Bank, Ltd., £100,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £300,000 at 4.76 7/16; cable transfer American Express Co., £100,000 at 4.76 7/16; cable transfer Equitable Trust Co., £500,000 at 4.76 7/16; cable transfer London City & Midland Bank, £550,000 at 4.76 7/16; cables $3.25	11, 672, 722. 00		
	Cash from British Government Treasury a/c		11, 672, 722. 00	[1] 57, 795, 531. 46
Jun. 21	Cable transfer London City & Midland Bank, £700,000 at 4.75 7/16; cable transfer Royal Bank of Canada, £70,000 at 4.76 7/16; cable transfer Angle South American Bank, £250,000 at 4.76 7/16; cable transfer National Bank of South Africa; £300,000 at 4.76 7/16; cable transfer Union of London & Smiths Bank, £150,000 at 4.76 7/16; cable transfer Guaranty Trust Co. £1,000,000 at 4.76 7/16; cables $2.50	11, 768, 008. 75		
	Cash from British Government Treasury a/c		11, 768, 008. 75	[1] 57, 795, 531. 46
Jun. 22	Cable transfer Equitable Trust Co., $450,000 at 4.76 7/16; cable transfer National Bank of South Africa, £350,000 at 4.76 7/16; cable transfer Lloyds Bank, Ltd., £100,000 at 4.76 7/16; cable transfer Farmers Loan & Trust Co., £100,000 at 4.76 7/16; cable transfer Royal Bank of Canada, £30,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £800,000 at 4.76 7/16; cables, $2.38	8, 480, 589. 88		
	Cash from British Government Treasury a/c		8, 480, 589. 88	[1] 57, 795, 531. 46
Jun. 23	Cable transfer Farmers Loan & Trust Co., £100,000 at 4.76 7/16; cable transfer Equitable Trust Co., £300,000 at 4.76 7/16; cable transfer National Bank of South Africa; £475,000 at 4.76 7/16; cable transfer Lloyds Bank, Ltd., £300,000 at 4.76 7/16; cable transfer London City & Midland Bank, £50,000 at 4.76 7/16; cables, $2.35	5, 836, 361. 62		
	Cash from British Government Treasury a/c		5, 836, 361. 62	[1] 57, 795, 531. 46

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Jun. 25	Cable transfer Equitable Trust Co., £300,000 at 4.76 7/16; cable transfer National Bank of South Africa, £250,000 at 4.76 7/16; cable transfer London City & Midland Bank, £400,000 at 4.76 7/16; cable, $1.63	$4,764,376.63		
	Cash from British Government Treasury a/c		$4,764,376.63	[1] $57,795,531.46
Jun. 26	Cable transfer National Bank of South Africa, £350,000 at 4.76 7/16; cable transfer Farmers Loan & Trust Co., £200,000 at 4.76 7/16; cable transfer London Joint Stock Bank, £80,000 at 4.76 7/16; cable transfer Equitable Trust Co., £200,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £250,000 at 4.76 7/16; cable transfer London City & Midland Bank, £420,000 at 4.76 7/16; cables, $2.50	7,146,565.00		
	Cash from British Government Treasury a/c		7,146,565.00	[1] 57,795,531.46
June 27	Cable transfer London City & Midland Bank, £450,000 at 4.76 7/16: cable transfer Union Bank of Canada, £100,000 at 4.76 7/16; cable transfer Anglo South American Bank, £250,000 at 4.76 7/16; cable transfer London & South Western Bank, £120,000 at 4.76 7/16; cable transfer National Bank of South Africa, £500,000 at 4.76 7/16; Cable transfer Farmers Loan & Trust Co., £200,000 at 4.76 7/16; cable transfer Lloyds Bank, £200,000 at 4.76 7/16; cables, $2.88	8,671,165.38		
	Cash from British Government Treasury a/c		8,671,165.38	[1] 57,795,531.46
June 28	Cable transfer Lloyds Bank, Ltd., £200,000 at 4.76 7/16; cable transfer Equitable Trust Co., £500,000 at 4.76 7/16; cable transfer Barclays Bank, Ltd., £100,000 at 4.76 7/16; cable transfer Anglo South American Bank, £400,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £1,000,000 at 4.76 7/16; cable National Bank of South Africa, £550,000 at 4.76 7/16; cable transfer London City & Midland Bank, £190,000 at 4.76 7/16; cables, $2.75	14,007,265.25		
	Cash from British Government Treasury a/c		14,007,265.25	[1] 57,795,531.46
June 29	Cable transfer London City & Midland Bank, £275,000 at 4.76 7/16; cable transfer Union Bank of Canada, £250,000 at 4.76 7/16; cable transfer Anglo South American Bank, £100,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £500,000 at 4.76 7/16; cable transfer Union of London & Smiths Bank, £100,000 at 4.76 7/16; cable transfer Cox & Co., Ltd., £100,000 at 4.76 7/16; cable transfer National Bank of South Africa, £500,000 at 4.76 7/16; cable transfer Lloyds Bank, £300,000 at 4.76 7/16; cable transfer Intl. Banking Corpn., £100,000 at 4.76 7/16; cables, $3.38	10,600,737.76		
	Cash from British Government Treasury a/c		10,600,737.76	[1] 57,795,531.46
June 30	Cable transfer Equitable Trust Co., £100,000 at 4.76 7/16; cable transfer Union Bank of Canada, £300,000 at 4.76 7/16; cable transfer National Bank of South Africa, £900,000 at 4.76 7/16; cable transfer London & South Western Bank, £100,000 at 4.76 7/16; cable transfer London City & Midland Bank, £200,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £1,000,000 at 4.76 7/16; cables, $3.38	12,387,378.38		
	Cash from British Government Treasury a/c		12,387,378.38	[1] 57,795,531.46
July 2	Interest at 6% to July 1, 1917	880,982.35		
	Cash from British Government Treasury a/c against interest debited in a/c		880,982.35	[1] 57,795,531.46
July 3	Cable transfer Equitable Trust Co., £100,000 at 4.76 7/16; cable transfer National Bank of South Africa, £500,000 at 4.76 7/16; cable transfer Farmers Loan & Trust Co., £250,000 at 4.76 7/16; cable transfer Guaranty Trust Co., £500,000 at 4.76 7/16; cable transfer London City & Midland Bank, £950,000 at 4.76 7/16; cables, $2.13	10,958,064.63		
	Interest 1 day at 5% on £250,000 c/tfr paid June 30		165.43	
	Cash from British Government Treasury a/c		10,957,899.20	[1] 57,795,531.46

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[1] Debit.

J. P. Morgan & Co. demand loan no. 1—May 4, 1916–Aug. 7, 1917—Continued

SPECIAL LOAN TO MORGAN GRENFELL & CO., ACCOUNT CLIENT # 1, IN ACCOUNT WITH J. P. MORGAN & CO.—Continued

Date	Description	Debit	Credit	Balance
Jul. 5	Cable transfer London City & Midland Bank, £200,000, at $4.76\frac{7}{16}$; cable transfer Barclays Bank, £100,000, at $4.76\frac{7}{16}$; cable transfer National Bank of South Africa, £375,000, at $4.76\frac{7}{16}$; cable transfer Hong Kong & Shanghai Bkg. Corp., £50,000, at $4.76\frac{7}{16}$; cables, $1.13	$3,692,391.75		
	Cash from British Government Treasury a/c		$3,692,391.75	[1]$57,795,531.46
Jul. 9	Cash paid British Government Treasury a/c	595.55		
	Interest, 3 days at 5% on c/tfr £300,000 bought for payment Jun. 30, paid July 3		595.55	[1] 57,795,531.46
Jul. 27	Cash paid British Government Treasury a/c	52.94		
	Interest 1 day at 4% on c/tfr £100,000 bought for payment Jun. 29, paid Jun. 30		52.94	[1] 57,795,531.46
Jul. 31	Cash paid British Government Treasury a/c	13.23		
	Interest to make 5% on above c/tfr		13.23	[1] 57,795,531.46
Aug. 6	Repayment of participation to: Bankers Trust Co. $6,400,000.00 First National Bank 5,000,000.00 Astor Trust Co. 350,000.00 Guaranty Trust Co. 10,000,000.00 Union Trust Co., New York 500,000.00	22,250,000.00		
Value Jul. 1	Participation of National City Bank transferred to Morgan Grenfell & Co., special loan a/c client #2	5,000,000.00		
	Cash from U. S. Subtreasury, N. Y., advance on 300 bags of gold from Ottawa, Aug. 3, and deposited with Philadelphia Mint, $6,400,000.00; less telegram, $1.00		6,399,999.00	[1] 78,645,532.46
Aug. 7	Interest at 6%, Jul. 1 to date	523,380.78		
	Additional ½% interest on £500,000, May 3 to date	666.67		[1] 79,169,579.91
	Cash from U. S. Subtreasury, N. Y., advance on 300 bags of gold from Ottawa, Aug. 4, and deposited with Philadelphia Mint, $6,200,000.00; less telegram, $1.00		6,199,999.00	
	Cash from U. S. Subtreasury, N. Y., advance on 81 bags of gold from Ottawa, Aug. 6 and deposited with Philadelphia Mint, $1,650,000.00; less telegram, $1.00		1,649,999.00	
	Cash from British Government Treasury a/c		524,047.45	
	Transferred from His British Majesty's Government loan Morgan Grenfell & Co. a/c client #2 as per cable #40294		70,795,534.46	[1] 0

[1] Debit.

HIS BRITANNIC MAJESTY'S GOVERNMENT LOAN—MORGAN GRENFELL & CO. SPECIAL A/C CLIENT # 1.—IN ACCOUNT WITH J. P. MORGAN & CO.

SUMMARY OF PARTICIPANTS OTHER THAN J. P. MORGAN & CO., APRIL 6, 1917 TO CLOSING OF ACCOUNT AUG. 7, 1917

Participation on April 6, 1917		Additional participation		Repayments	
Bankers	$5,000,000.00	May 2, 1917	$3,400,000.00	Apr. 26, 1917	$2,000,000.00
				Aug. 6, 1917	6,400,000.00
Astor	600,000.00			Apr. 26, 1917	250,000.00
				Aug. 6, 1917	350,000.00
Guaranty	5,000,000.00	Jun. 9, 1917	7,000,000.00	Apr. 26, 1917	2,000,000.00
				Aug. 6, 1917	10,000,000.00
First	5,000,000.00			Aug. 6, 1917	5,000,000.00
City	5,000,000.00			Aug. 6, 1917	5,000,000.00
Union	-------------	May 4, 1917	500,000.00	Aug. 6, 1917	500,000.00

EXHIBIT No. 2636

THE ZIMMERMANN TELEGRAM

[Sent by Germany to Mexico, January 19, 1917]

We intend to begin on the 1st of February unrestricted submarine warfare. We shall endeavor in spite of this to keep the United States of America neutral. In the event of this not succeeding, we make Mexico a proposal of alliance on the following basis: Make war together, make peace together, generous financial support and an understanding on our part that Mexico is to reconquer the lost territory in Texas, New Mexico, and Arizona. The settlement in detail is left to you. You will inform the President of the above most secretly as soon as the outbreak of war with the United States of America is certain and add the suggestion that he should on his own initiative, invite Japan to immediate adherence and at the same time mediate between Japan and ourselves. Please call the President's attention to the fact that the ruthless employment of our submarines now offers the prospect of compelling England in a few months to make peace.

(Signed) ZIMMERMANN.

EXHIBIT No. 2637

GERMAN SUBMARINE NOTE OF JANUARY 31, 1917

The German Government gave notice on January 31, 1917, to the United States Government that thereafter they would let loose absolutely unrestricted submarine warfare on all American merchant ships unless the American Government agreed immediately to comply with and obey the following rules laid down for it by the German Government:

Sailing of regular American passenger steamers may continue undisturbed after February 1, 1917, if—

(a) The port of destination is Falmouth.

(b) Sailing to or coming from that port course is taken via the Scilly Islands and a point 50° N. 20° W.

(c) The steamers are marked in the following way which must not be allowed to other vessels in American ports: On ships' hull and superstructure 3 vertical stripes 1 meter wide each to be painted alternately white and red. Each mast should show a large flag checkered white and red, and the stern the American national flag.

Care should be taken that, during dark, national flag and painted marks are easily recognizable from a distance and that the boats are well lighted throughout.

(d) One steamer a week sails in each direction with arrival at Falmouth on Sunday and departure from Falmouth on Wednesday.

(e) The United States Government guarantees that no contraband (according to German contraband list) is carried by those steamers.

So certain were Von Bernstorff and his Government that the note of January 31 meant war, that on the morning of that day, before delivering the note, he had given instructions for the disabling of all engines on German vessels lying in American harbors.

EXHIBIT No. 2638

APRIL 7, 1917.

[Personal]

EDWARD N. SMITH, Esquire,
Watertown, New York.

MY DEAR ED: I received your letter of approval of the President's address to Congress and was much gratified that you felt as you do about it, although I knew that you would feel so without your writing.

Since you wrote me, Congress has acted and I am sure that to one who watches as closely as you do the course of national affairs, the vote in the House must indicate the conditions under which we have long been laboring. We have known the state of mind in the House and realized that it was not as "clear sailing" as many people seemed to think. I was asked the day before the vote was taken what would be the number of the opposition and when I said, "Fifty, possibly sixty", I was ridiculed as a pessimistic prophet. I really believe that there were a number of others who would have voted against the resolution if they had dared and if they had not the overwhelming majority in the Senate as an indication of popular opinion.

It is my judgment that if the same resolution had been presented in February the House would have shown three times as great opposition, and if it had been voted on last summer its passage would have been so close as to show a divided country. Indeed, it might have entirely failed. Of course, the President could have made a record for himself by action then, but knowing the temper of the coordinate branch as he did he would have placed the country in a most humiliating position. The only course practicable was to wait, to suffer further indignities, and to make every effort to bring about peace, so that the lukewarm would grow hot and the cold lukewarm. It was to wait the time when there could be no question but that a substantial majority favored war. Even when that time arrived, the thought that a very considerable number of pacifists of pro-German and anti-British adherents, and of Representatives who sought, at any cost, the material good of their constituents could be counted against the resolution was to me a distressing fact.

The only satisfaction I derived from the situation was that it must open the eyes of many people, who had been clamoring for action and claiming that the President should have acted after the *Lusitania* disaster or certainly after the *Sussex*. Why, the President would have been defeated had he tried to obtain action after either case almost as certainly as night follows day. It is a very different thing to feel the pulse of the whole Nation and to feel that of a city, a State, or a section of the country. You can have little idea of the temptation to act and the difficulty of restraint, though reason said that immediate action would result in humiliation.

There! I did not intend to write you so fully, but I confess to a measure of indignation when I consider the abuse which the President has borne because he was wise enough and brave enough to wait until he was sure that he could take a step which would not have to be withdrawn because Congress would not give him a decided majority.

Do not think that I am blaming those who have been bitter critics. I am not, because I realize their feelings were natural from the facts at their command. But I do hope that now they will comprehend the obstacles which had to be removed and the difficulties which had to be overcome, before decisive action could be wisely taken. If they are just they will admit their error. If they find it difficult to be so generous I hope that they will at least cease to complain about a delay, the wisdom of which they must now appreciate.

Just one word more. You suggest a coalition cabinet. I have talked to several leading Republicans about it and they all scoff at the idea. They say that coalition cabinets are only excusable in responsible governments, and then only when no party is strong enough to insure stability. They say that even in such circumstances they never work well and are only an undesirable makeshift. And they point out that under our system stability exists without such method of gaining a legislative majority. I believe from the little the President has said on the subject that he hold similar views and holds them strongly.

Write me again.

Sincerely yours,

ROBERT LANSING.

RL/RCS

EXHIBIT No. 2639

21/84

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, December 1, 1916.

[Copy of telegram despatched 12:30 a. m. to Morgan, London]

31879, E. C. Grenfell. Denkbar. We purchased today, £4,040,000 exchange, making total exchange purchased during last three business days $51,550,000. We ourselves tomorrow will be advancing on loan no. 1, $84,349,000. On loan no. 2, $6,000,000, exclusive of tomorrow's export department's requirements. On Anglo-French joint purchase account, $8,892,000.

In addition to foregoing, we have invested in United Kingdom loan, other loans to Allies, and acceptances with belligerent government guarantees, $25,-

759,000, and we have also committed ourselves in connection with new Russian loan and Bankers Trust Co. acceptances from France to the extent of $9,320,000. The foregoing making a total of approximately $134,320,000.

We expect to begin participating loans next Monday.—H. P. Davison.

Morgan.

Exhibit No. 2640

16a1/21/84

J. P. Morgan & Co.,
Export Department,
New York, Dec. 4, 1916.

[Copy of telegram despatched 12:45 p. m. to Morgan, London]

31951. E. C. Grenfell. Exchange purchases up to noon today already aggregate over £3,000,000. As indicated in 31844, all our calculations will be completely upset if exchange purchases continue as now. 31879 gave you situation which today is still worse. We feel that we must know at once what the plans of your authorities are in this matter of exchange, for certainly the present situation cannot continue.

Newspapers here last Saturday reported arrival in San Francisco of $32,000,000 Russian gold. We have had no other information. Is it true?

Morgan.

Exhibit No. 2641

84/21/16a1/30A

J. P. Morgan & Co.,
Export Department,
New York, Dec. 5, 1916.

[Copy of telegram despatched 10 p. m. to Morgan, London]

33036. For E. C. Grenfell. Our exchange purchases this morning aggregate approximately £4,000,000. We must again reiterate that this feature seems to be the crux of the whole situation. Payments under contracts closed through us are not excessive. We figure them approximately 100,000,000 monthly during the next four months. But the support of the exchange market is the serious feature. In attempting yesterday to participate nos. 1 and 2 loans beyond our own circle, we found reluctance on the part of some institutions, naturally, due to low reserves and extraordinarily high rates for call money. With this somewhat unexpected obstacle and with the situation as serious as it is, we called group of confidential leading bankers this morning to point out the necessity of caring for situation and the facility for doing so with such large amounts of American securities to use pending arrival of sufficient gold. All these bankers most anxious to cooperate and express willingness to reduce their reserves even below legal limit, if necessary, but as one man they asked the question, What are Great Britain's requirements going to be in the next thirty days? We could not answer this question, because the handling of exchange makes that feature absolutely uncertain. It was apparent to us that our inability to answer this specific question or even to place an outside limit upon the exchange item was very disturbing to these bankers. We feel, therefore, on this and on every other account that we must have some early expressions as to plans of authorities on this point. We are not fully acquainted with what is in their minds. Perhaps they have some undisclosed resources that we are not aware of, but at the present rate of going they will soon exhaust all gold available or in transit and also available American securities, even going so far as to assume that we can possibly secure loans up to 80% of the value of these securities. We do not presume to suggest the policy of the authorities, but our responsibility certainly requires our pointing out the dangers in the situation, so that if we should suddenly find that we had exhausted all available resources of this market, the knowledge of that fact would not come as a shock to authorities. Our own interest this morning in numbers one and two loans was $90,000,000. Owing to previously explained limitations upon amount any one promissor may borrow, it may be necessary for us in the near future ourselves to become the obligor for your account. You can understand our reluctance to do this, as fact would almost undoubtedly become known and create bad effect.

Your 26937. Can you give us any idea of the amount of withdrawal of American deposits in London and of remainder there? Natural supposition is that this shifting together with gold imports would reduce rates here and we believe that present hardness will not continue. It is largely due to fact of enormous increase in business activity, bank loans having increased here to extent of $3,000,000,000 since the outbreak of the war. Primarily at this time it is due to very low reserves in banks of leading cities. Small interior banks have large surplus reserves but they are very slow in transferring these to New York City and whether in view of increasing business activity in interior domestic circles we can count upon such shifting to any considerable extent we are doubtful. The newspaper reports of the Cabinet crisis are disturbing many people here and naturally tend to make difficulties somewhat greater. We hope you will give us such information as you properly can upon this situation. It is distressing to us to send you any cable which would in any degree contribute to the difficulties, but our reasons for doing so are of course obvious.

Please give this cable your immediate attention and reply as promptly as possible.

MORGAN.

HPD.

EXHIBIT No. 2642

Rates for call money at the Stock Exchange in New York during November and December 1916, as shown by the Financial Review Annual, 1917, and during January 1917, as shown by the Financial Review Annual, 1918 [1]

Day of the month	1916				1917, January	
	November		December			
	Low	High	Low	High	Low	High
1	2¼	2½	4½	6½	(2)	(2)
2	2¼	2½	(3)	(3)	2¼	2¾
3	2	2½	(4)	(4)	2¼	2½
4	(3)	(3)	6	15	2¼	2¼
5	(4)	(4)	6	10	2	2½
6	2¼	2½	3	7	(3)	(3)
7	(2)	(2)	3	5	(4)	(4)
8	2¼	2½	3½	4	2	2¼
9	2	2½	(3)	(3)	2	2½
10	2	2½	(4)	(4)	1½	2
11	(3)	(3)	3½	10	1¾	2½
12	(4)	(4)	4	6	1¾	2
13	2¼	2½	3¼	4½	(3)	(3)
14	2	2½	3½	4	(4)	(4)
15	2¼	2½	4	6	1¾	2
16	2¼	2½	(3)	(3)	1¾	2
17	2¼	2½	(4)	(4)	1¾	2
18	(3)	(3)	3¾	5	1¾	2
19	(4)	(4)	4¼	4½	1¾	2
20	2¼	3	4	4¼	(3)	(3)
21	2¾	3	4	5	(4)	(4)
22	2¾	4	2	4	1¾	2
23	3	4½	(3)	(3)	1¾	2
24	2	4	(4)	(4)	1¾	2
25	(3)	(3)	(2)	(2)	1¾	2
26	(4)	(4)	2¼	3½	1¾	2
27	4	5½	2¼	3	(3)	(3)
28	4¾	6	2½	3	(4)	(4)
29	4	5	2¼	3¼	1¾	2
30	(2)	(2)	(3)	(3)	1¾	2
31	----------	----------	(4)	(4)	1¾	2
Range	2	6	2	15	1½	2¾

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[1] (In pencil) Furnished the committee by J. P. Morgan & Co.
[2] Holiday.
[3] Saturday.
[4] Sunday.

EXHIBIT NO. 2643

65

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, December 6, 1916.

[Copy of telegram received 11 : 23 a. m. from Morgan, Grenfell & Co., London]

26986. Denkstein for H. P. Davison. In view of your recent experiences here you will, I hope, understand my personal difficulties in sending you any satisfactory replies to the wonderful cables you are sending us. You sized up the character of our chancellor and can appreciate my difficulty. In addition the Cabinet crisis occupies the minds of all the ministers to the exclusion of other matters, even when they are of such vital importance as the situation which you and we are endeavoring to cope with.

I have not been able, up to 1 p. m., our time, to see the chancellor in reference to 33036, though the governor and I hope to do so shortly.

I presume that if a break were allowed in exchange or any concellations of orders were to begin, these might occasion a big squeeze in your stock markets and curtailment of loan facilities by bankers. Do you endorse this opinion? I will cable when I have seen chancellor.—E. C. GREENFELL.

MORGAN.

EXHIBIT NO. 2644.

65

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, December 6th, 1916.

[Copy of telegram despatched 9 : 10 p. m. to Morgan, London]

33061. For E. C. Grenfell. 26986. Your difficulties are fully appreciated by us all and you have our full sympathy. As has frequently been said, the complete understanding between us at least makes less difficult our endeavors. Exchange purchases today again aggregate almost £4,000,000.

A break in exchange or cancellation of orders would probably affect the stock market, and also foreign issues. We are not sure we know just what you have in mind by a break in exchange. Our experience leads us to believe that if the protection were completely removed the exchange market would break badly, the results of which would be reflection upon British credit, which would in turn make borrowing more difficult. We do not see how cancellation of orders would bear upon this, unless cancellations were viewed as necessary because of lack of ability to pay for the goods; that is to say, if cancellations were made because of speeding up of resources at home or in colonies, thus enabling Great Britain to get along without goods from this country, it would be only a natural move in view of the difficulties of borrowing in this country.

As you know, we have no hope of immediate financing of any kind, but if the situation can be maintained a reasonable time, we would then hope for a marked improvement when we would hope to issue secured if not unsecured obligations. But if there is doubt in the minds of your authorities as to ability to keep up exchange, then we believe it is better to meet that situation now rather than later.

We have no means of measuring the exchange requirements, and the only available resources of which we know are the gold and the American securities. So far as we know, there has been no consideration given to the gradual support of exchange, letting it seek a lower level, but endeavoring to avoid a shock. Is not this worthy of consideration? To summarize, our judgment is that it would be wise to hold the situation as heretofore if, all things considered, it is certainly possible to do so. We have hope that we may soon have somewhat easier money market. If so, that should somewhat relieve the pressure on exchange sales.

However, unless it is clear that with the full knowledge of our situation here, and such other resources as you may have, you can carry the situation through, we believe it is better to face the situation now rather than later. Of course, it is most unfortunate that such a development should occur just at the time of the Cabinet crisis and the lack of favorable military news. I hope this gives you our thought upon this subject.—H. P. DAVISON.

MORGAN.

HPD.

EXHIBIT No. 2645

372aa/84–1/30a

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 6, '16.

[Copy of telegram received 7 : 23 p. m. from Morgan, London]

28017. 33036. Refer to 26810: Not counting gold, advised 26817, 26908, which latter treasury sent in advance of your request on their own initiative, there is in Ottawa £18,000,000. This includes $20,000,000 en route Atlantic, mentioned 26810. Arriving San Francisco £2,000,000 in four shipments due between November 30th–December 28th. Now in London £20,000,000 French, which we hope expedite to United States.

Treasury are disposed to support exchange with gold as above, insofar as you find it difficult to borrow on American securities. Treasury estimates of their expenditure as given to H. P. Davison proved correct for October, November, this apart from supporting exchange for which demands exceeded estimates.

Treasury estimate that for December, including Morgan orders $100,000,000, other payments, exclusive of French and exchange, should not exceed $20,000,000. France will require $12,000,000 this week, as already advised, and will be pressed to carry on for rest of month out of proceeds Kuhn, Loeb & Co. loan. If you can therefore care for $150,000,000 during the whole of December out of advances on American securities in addition to loans nos. one and two now outstanding there will be a margin. This provided gold deliveries meet exchange requirements.

It is difficult to give you accurate idea of amount of American deposits outstanding. Bankers' deposits in London were about £18,000,000 at end of October and rose to £22,500,000 on November 25th.

During last week up to December 2nd, American bankers sterling balances in London were reduced by $30,000,000 out of $60,000,000 of exchange purchased by you. There may be, therefore, about £17,000,000 of American bankers sterling balances now in London, not including sterling treasury bills held for American account.

You will understand that these figures may not represent all current balances here. Whereas American deposits tended to increase until November 25th, the sudden change from deposit to withdrawal helped to account for amount of exchange bought.

Treasury sincerely appreciate your clear cable 33036 and seek your views on above figures and explanations.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2646

(Date handwritten) JULY 23, 1917.

Memorandum which was handed to Mr. Page on July 20th last at the instance of the Chancellor of the Exchequer stated in clause 3 that "unless the U. S. Government can meet in full our expenses in America, including exchange, the whole financial fabric of the Alliance will collapse. This conclusion will be matter not of months but of days."

That memorandum was intended to set forth for the information of U. S. Government extent of financial effort which H. M. Government have already made and approaching exhaustion of their resources. It did not deal with the question of exchange in particular. As, however, this form of assistance is at the same time most vital to H. M. Government and most difficult to render clear to U. S. Government it is dealt with here.

(1) Growth of existing system for supporting the exchange.
(2) Cost of it.
(3) Consequences of withdrawing it.
(4) It is pointed out that H. M. Government must now learn how far U. S. Government will be able to give them necessary support. A point has been now reached when a definite decision must be taken within the next few days and H. M. Government trust U. S. Government will agree with them as to the necessity of putting end to present state of uncertainty.

(1) At the commencement of the war balance of trade with America was in favour of this country. That is to say, there were on balance purchasers of sterling in New York. We were able, therefore, to finance our war purchases

from America, as also from the rest of the world, by sale of sterling exchange. In the summer of 1915 large amounts of dollars were required to finance advance payments on shell and rifle contracts placed for Russian Government, with result that British Treasury were no longer able to provide themselves with all the dollars they required by sale of sterling in New York as hitherto. A break in exchange took place and it became necessary in the course of the autumn of 1915 for British Treasury to finance their munitions purchased by other means than by sale of sterling in New York. By the beginning of 1916 they had to go a step further and to come to the support of commercial exchange by making a standing offer through their agents in New York to purchase sterling from all comers at fixed minimum rate of $4.76 7/16.

Anglo-French loan of 1915, mobilization of dollar securities for sale and collateral security loan and export of gold to United States were chief sources of the funds required for these two purposes.

This arrangement provided a direct means of conversion of sterling into dollars by which British purchasers of American goods could reckon on financing them at a fixed rate while the Allies and Dominions who received sterling credits could turn them into dollars to meet their American payments. Indirectly also it stabilized in some degree all the other foreign exchanges since sterling could be if necessary converted into any other foreign currency by first purchasing dollars and the using these dollars to obtain foreign currency required.

As time went on this system developed into one by which the nervous centre of Allied financial system was as much in New York as in London. While gold was occasionally exported to other destinations the bulk of it was reserved for America. By furnishing America with unprecedented quantities of species we ourselves provided basis of credit she required to finance her sales to us.

At first adverse balance was relatively small. In fact up to April 1916 we were still able to supplement our other resources by sale on balance of a certain amount of sterling. From May 1916 balance has been progressively adverse.

In November and December 1916 we were faced with first serious exchange crisis since the summer of 1915. As shown in a table below average weekly requirements for support of exchange amounted in December 1916 to $44,500,000.

Since that date high prices, increased expenditures, growing exhaustion of the Allies, depletion of British financial reserves in all parts of the world and progressive destruction of our export trade by diversion of man power into other channels have combined to raise figures taking one month with another far beyond those of 1916.

Past seven months have accordingly required a lavish employment of our ultimate liquid reserves. Conclusion of third year of war finds us with these reserves at a level likely to entirely exhaust in a few weeks if present drain on them is to continue.

(2) Appended table shows average weekly expenditure of British treasury in United States for each month since April 1916, first column representing purchase of commodities and transfer of dollars to Allies, and the second, support afforded to dollar exchanges. While figures in second column have fluctuated widely it will be seen that average weekly requirements during the past three months have worked out at rather more than $40,000,000.

Average weekly expenditure in U. S.:

1916—April. Treasury account (all figures in thousands of dollars). 26,969. Exchange brought 5,156. Total 21,813 (column 2, sale of sterling).

May	33, 033	9, 824	42. 857
June	35, 377	12, 608	47, 985
July	20, 225	5, 592	25, 817
August	36, 267	14, 348	50, 615
September	[1] 37, 300	[1] 14, 073	51, 373
October	46, 958	19, 712	66, 670
November	33, 588	31, 728	65, 316
December	34, 313	44, 600	78, 913
1917—January	31, 112	12, 125	43, 237
February	41, 826	35, 051	76, 877
March	61. 856	11, 952	73. 808
April	42, 152	16, 717	58, 869
May	39, 558	40, 402	79, 960
June	38, 072	61, 275	99, 347
July (3 weeks to July 21)	49, 919	21, 606	71, 525

[1] Written in pencil.

Fluctuations are mainly due to movement of American banking funds to and from London. It is obvious that when American bankers are increasing their London balances the exchange benefits and conversely that when they are withdrawing balances the normal burden on exchange is aggravated. In the course of the present year cash balances and bills held on American account in London have been as high as 53,500,000 pounds (Apr. 14th) and as low as £22,500,000 (June 23rd).

Allowing for the fact that figures of the past three months have been abnormally inflated by withdrawal of American balances, and that they include cost of temporary wheat purchases which will be paid for in future otherwise average cost of supporting exchange assuming that American balances in London remain stationary is not likely to be less than $25,000,000 a week or $100,000,000 a month.

(3) The above summary of past events will have shown what a central place support of dollar exchange has come to take in financial system of alliance. Funds which we have placed at disposal of the allies and dominions have been mainly sterling, purchasing power of which in all parts of the world has been maintained by this means.

To estimate consequences of withdrawing support from sterling exchange in New York we must consider the purposes now served by supporting it. The following analysis refers in each case to balance unprovided for after allowing for America's ordinary trade obligations to ourselves and the Allies.

(a) Exports on private account from America to this country for commodities not yet under government control of which cotton is the chief.

(b) Similar purchases by the allies who have not yet controlled so many commodities as we have.

(c) Purchases from America by British Dominions and by India only small part of whose trade is under government control.

(d) Cost of neutral exchange artitraged over New York, that is to say those allied purchases in neutral markets which are being financed at present out of the resources of the U. S.

Of these, U. S. Government will probably wish to enquire most closely into the magnitude and character of (d). Amount involved is fairly substantial, but we have no reliable information on which to estimate it.

If the policy of supporting exchange were to be abandoned tomorrow collapse not only of the allied exchanges on New York, but also of their exchanges on all neutral countries, is to be expected. Allies and all parts of the Empire except Canada would be affected equally. It is likely that exchange quotations would not only fall heavily but would become nominal—that is to say, there would be for the moment no exchange offering at any price, and business would be at a standstill.

Consequences of such a state of things are partly material and partly psychological.

1. On *material* side exporters from U. S. to United Kingdom, other allied countries, Australasia, India, and South Africa would be unable to sell their sterling bills on London. New business would be interrupted at the source and vessels would be delayed in port by reason of shippers being unable to obtain delivery of the goods without paying for them.

From American point of view this would involve a breakdown for the time being of the mechanism of a great part of her export trade, paralysis of business, and congestion of her ports. From the point of view of this country and of the other allies it would represent cessation for the time being of supplies such as cotton which, while still left in private hands, are nevertheless essential for the conduct of the war. It must be remembered that practically no trade takes place except in commodities of national importance, considerations of freight quite apart from finance having already cut off the greater part of what is dispensable.

At the same time the American banks would see their London assets locked up for the period of the war at least, and also heavily depreciated.

How long this state of things would last would depend on the success of our remedial measures. Initial disorganization must be distinguished from permanent results. It is possible even the initial disturbance might be somewhat less for us than indicated above. But whatever the degree of initial disturbance, eventual result if estimate of 100,000,000 dollars a month is correct would be that foreign purchases of the alliance would have to be diminished by at least this amount monthly.

This sum, however, would not represent the whole effect. Destruction of British credit abroad would cut us off from certain sources of income which we now possess. So long as existing foreign balances in London remained immobilized we could not expect foreign countries to increase them. At present we pay in sterling for numerous foreign purchases. Difficulties of freight and supply prevent neutral countries from spending this sterling forthwith. In the meantime they leave it in London and payment is thus deferred.

Allowing, therefore, for losses arising out of the injury to our credit, the economies we should have to effect will largely exceed the 100,000,000 dollars monthly.

Pending reorganization of trade and finance, loss would, as pointed out above, extend beyond this to commodities which, after things had settled down, we might hope to pay for.

On the material side, therefore, breakdown of exchanges must gravely impair our capacity to carry on the war, but by itself it need not prove disastrous. We could, if necessary, effect economies on scale indicated above and still carry on.

(2) Turning to *psychological* consequences results would be plainly disastrous. Open abandonment of support of exchanges is a step which would be interpreted in all circles as indication of deep-seated distress. Not only would our credit have been impaired in all neutral centres but vague doubts would have been awakened which might spread far beyond their origin.

Chief of all, there is effect on the mind of the enemy. There are doubtless officials in Berlin whose duty it is to watch and report upon our financial position and embarrassments. They must suspect our growing financial difficulties and can make a good guess at our position just as we can with their food difficulties. But there is world of difference between a shrewd guess and a piece of tangible evidence.

Encouragement and corroboration of their hopes which they would discover in our abandonment of exchanges would therefore be enormous. Germany would have at last received a second hope added to that of the submarine on which to base her policy of endurance. It would be said whether it is true or not that with collapse of their exchanges the alliance cannot endure 6 months more.

We have openly attached hitherto utmost importance to position of our exchanges. We have constantly proclaimed to the world that it is the corner stone of our policy. To point out depreciation of German exchanges and stability of our own has been a favorable form of propaganda in all parts of the world. We have urged neutral world month after month that this is to be taken as criterion of financial strength. It would be imprudent to believe all this can be swept on one side without a far-reaching reaction.

(4) Memorandum handed to Mr. Page on July 20th will have shown to U. S. Government to what a low level our liquid reserves have now fallen. In the event of exchanges being allowed to fall and of our having to undertake reorganization of our affairs thus made necessary we must do so with a certain amount of liquid resources still in hand. We cannot therefore deplete them further and must look to U. S. Government for the future.

We must therefore know if possible immediately whether U. S. Government can give us the financial assistance we need.

In asking this we do not overlook that we are asking them to moderate two conditions which they have hitherto regarded as essential.

In the first place, to provide funds for exchange is to defray uncontrolled expenditure for undefined purposes. We can only say we have already extended sphere of Government control far beyond what would have been believed possible short time since. But the complexity of the world's trade is too great to allow the whole of it to become amenable to a control. This limitation of continuance of private commerce is represented financially by commercial exchange.

In the second place, support of exchanges involves in part employment of American funds to finance purchases of the Allies outside America. America must be the judge of how great a burden she can support. At present stage of the conflict, her resources are greater than ours. She has not only her own pre-war resources but more than £200,000,000 additional in actual gold with which the Allies have furnished her in the past 3 years. It is necessary for the Allies to make purchases in neutral countries in excess of what they are themselves able to finance. Within comparatively narrow limits they look to U. S. to augment these resources out of her exports of goods and of gold to neutral countries so far as her capacity allows. She cannot render a more valuable service.

H. M. Government trust most sincerely that they may learn within a few days time general attitude of U. S. Government to this most vital question. This is necessary because it is only by assistance of U. S. Government that support of exchange can be continued and at any moment demand for exchange in New York may be so great that our representatives there may be compelled to cease support of it if they cannot rely upon funds from U. S. Government for the purpose. If any further information is desired it will be at once supplied and Lord Northcliffe who is familiar with the whole situation would gladly discuss it with you.

EXHIBIT No. 2647

[Copy]

F. R. 1917 S. 2—Our cuts.
File No. 841.51/874.

The British Ambassador (Spring Rice) to the Secretary of State

WASHINGTON, *July 1, 1917.*
[Received July 2.]

MY DEAR MR. SECRETARY: I am instructed by His Majesty's Principal Secretary of State for Foreign Affairs to call your immediate attention to the financial position of Great Britain in regard to the war, inasmuch as it is of an urgent and critical character. It appears, indeed, to Mr. Balfour that the United States Treasury do not realize how perilous the situation truly is, namely, that there is danger that the ability of His Majesty's Government to effect payments in America from today onwards will be in jeopardy.

The effect which will be produced on the progress of the war by a collapse of the exchange will be no less disastrous than a great military reverse, for not only will all commercial relations between the two countries, including the cotton trade, be thrown into complete disorder entailing the stoppage of the entire private export business from the United States, but, further, the basis of financial relations of all the Allies with the rest of the world will be removed, and a general collapse of credit and of all financial confidence will inevitably result.

* * * * * * *

So far as British requirements are concerned, His Majesty's Government have never feared that the United States Government would not give the financial support required. Indeed, upon the entry of the United States into the war His Majesty's Government abandoned financial expedients previously contemplated in order that the American market might be free for the Liberty Loan operation. The need of His Majesty's Government for the six months beginning June 1 were communicated in writing to the Secretary of the Treasury on May 3rd during the presence of Mr. Balfour in Washington and the specific assistance desired for June was indicated in my note to the Secretary of the Treasury of May 29th. It was confidently expected that these needs would be met.

Now, during the month of June the following transactions have taken place. The British Government have received from the United States Government the sum of $150,000,000. They have had to supplement this, however, by bringing in $125,000,000 in gold and by the sale of securities in America to the value of $10,000,000 and on the 28th ultimo they were forced to authorize their financial representative in New York to bring in a further $25,000,000 in gold. Thus you will perceive that, in the course of this month, only about half of the British expenditure in the United States has been met by the United States Government.

* * * * * * *

In view of the practical depletion of our resources in gold and marketable securities I am instructed to present to you a formal request for the following financial assistance. It is desired—

* * * * * * *

(3) That assistance may be given to cover the amount of our overdraft with New York bankers amounting to about $400,000,000. It was explained

to the Secretary of the Treasury in April and again in my communication of May 3d that this overdraft had been incurred mainly in order to enable our other allies to carry on and we agreed that this sum might be included in our application and regarded as a first call on the credits under the loan.

Mr. Balfour desires me to add that the friendly nature of the discussions which he had on these matters with the statesmen of this country did not leave him in any doubt as to the intentions of the United States Government to meet this situation and that the first and third requests which are now put forward merely embody in a formal manner points which he fully understood to express the settled intentions of the United States Government.

In conclusion, Mr. Balfour desires me to add that the foregoing urgent requests are presented solely on account of the immediate and grave necessities of the situation which he is convinced have only to be realized by the United States Government for relief to be forthcoming.

I am [etc.]

COLVILL BARCLAY,
(For the Ambassador).

EXHIBIT No. 2648

362A4

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 7th, 1916.

[Copy of telegram received 1 : 07 p. m. from Morgan, London]

28037. Denkstein for E. R. Stettinius. We regret that it has been impossible to obtain from the M. M. W. during the past few days decisions as usual regarding your cables containing fresh offers, particularly those covering steel and forgings.

You doubtless appreciate the effect of present circumstances on the transaction of government business and you will understand that in spite of the Ministry's desire to deal with proposals in ordinary course, there are many difficulties in the way of their doing so. While we expect to continue to obtain in ordinary course from the M. M. W. instructions on questions which do not involve additional financial commitments, we do anticipate that there may be some further delays in replying to your cables containing fresh offers, and we hope the reason for this temporary suspension of ordinary dealing will be fully understood on your side, and that you may be able to arrange with contractors to hold offers open for a short period until normal conditions are again established here.

MORGAN.

EXHIBIT No. 2649

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 7, 1916.

[Copy of telegram received 2 p. m. from Morgan, London]

65

28038. For H. P. Davison. Refer to our formal cable 28037 to E. R. Stettinius. I think it right to explain to you, for your and his private information, that during Cabinet crisis none of the leading ministers can really give proper attention to the matters in hand.

Further, in view of difficult money situation, the Chancellor of the Exchequer was insistent that no fresh orders should be placed. No one, therefore, will take responsibility for fresh orders or for any policy which may be reversed in the next few days by a new administration. I hope this may be arranged by Monday.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2650

84-1/21

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 7, '16.

[Copy of telegram despatched to Morgan, London]

33131. 28017. 28027. As we are now advancing on loans one and two aggregate of $175,000,000, an additional loan of $150,000,000 during next three weeks is a very large amount for this market, quite irrespective of the collateral, and particularly in view of the fact that we wish to handle the matter quietly and make no public issue. Our talk with the institutions has been along the line that the action of the Federal Reserve Board has given such a set-back to the issuing of loans that it has been necessary to make other arrangements pending an improvement in the situation; that we have on hand his large volume of American and foreign securities, and that the shipping of gold to this market is being expedited to the fullest extent; that your estimate is that an additional amount of loans, say $150,000,000, during December, will take care of the entire situation as you see it for that period. Our important banking friends have assured us that they will stand by and assist, and as result of various conferences today, we expect that we will be able to carry the business through if no unforeseen obstacles arise. To give you something of the picture, this would involve our having a participation in excess of $100,000,000, the National City Bank, say, $40,000,000, the First National Bank, say, $30,000,000, and so on. Naturally, these institutions ask what is going to happen after the first of the year, and to that we are unable to reply. We, of course, cannot encourage an operation which will bind up the New York market without some way of liquidating it. As we have said before, we hope that conditions will soon improve so that we can make an issue, and certainly we could make a public issue upon these Americans which would undoubtedly go promptly. Otherwise, we would have to liquidate by sale some of the securities, and on this point we may point out that we have only about $15,000,000 Americans in British Government treasury account, unpledged so far as regards either of the United Kingdom loans. This phase of the problem is a most important one. As to rate, we should hope that under no circumstances would the rate go above 6% and that whatever the market for money might be, it would not go below 6%, as we cannot justify this pressure upon these institutions without holding out inducement of compensation when rates shall have declined. As we shall find it necessary to widen the list of participants as well as increase the amounts taken by present participants, it is necessary for us to immediately put the present loans in more definite shape. While we now have authority to pledge all or any part of the collateral in such a manner as in our judgment seems necessary or wise, you appreciate that, as the amounts of these loans increase, there will certainly be inquiries from boards of directors or bank examiners for some specific evidence of our authority. In order, therefore, that we may have something to show when required, we suggest that you cable us in substantially the following form:

"The Chancellor of the Exchequer and the Bank of England have written us letters instructing us to advise you that for all loans which you have made or may hereafter make either to the British Treasury or Bank of England, you are authorized to hold as collateral all or any part of the American or other securities in your possession or in transit to you and all or any part of the gold in transit to you, you to hold or use all or any part of the foregoing collateral in such a manner as in your discretion seems necessary or wise. Your authority continues as heretofore to make such advances either to the British Treasury or to the Bank of England as in our discretion seems necessary or wise."

MORGAN.

DWM.

("Exhibit No. 2651" appears in text on p. 8600)

EXHIBIT No. 2652

21 84-1

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 9, 1916.

[Copy of telegram received 2:59 p. m. from Morgan, London]

28122. 33131. We have received following letter:

(Quote)

TREASURY CHAMBERS,
December 9th, 1916.

33219 16

GENTLEMEN: I am directed by the Lords Commissioners of His Majesty's Treasury request that you will convey to Messrs. J. P. Morgan & Co. their authority to hold as collateral for all loans which they have made or may hereafter make to their account or to the account of the Bank of England, all or any part of the American or other securities in Messrs. Morgans' possession or in transit to them, and all or any part of the gold in transit to them, holding or using all or any part of the saidcollateral in such manner as, in their discretion, seems necessary or wise.

I am to add Messrs. Morgans' authority to make such advances as in their discretion seems necessary or wise, continues as heretofore.

I am, gentlemen,
Your obedient servant,
(Signed) JOHN BRADBURY, *Secretary of Treasury.*

(End quote)

MORGAN.

EXHIBIT No. 2653

84-1

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 11, 1916.

[Copy of telegram received 7 p. m. from Morgan, London]

28140. Referred to your 33131. Governor and Deputy Governor state they did not fully understand that Bank of England was obligor for number one account. After recapitulating conversation which J. P. Morgan and E. C. Grenfell had with Governor on October 14th and your cable 27998, which was embodied in letter to Bank of England on that date and acknowledged by them, Governor has written us letter as follows:

BANK OF ENGLAND,
London, E. C., December 11, 1916.

DEAR SIRS: I thank you for your letter of this date and am sorry to find that there has been a misunderstanding about the name of the borrower under your New York City house's special or no. 1 loan account. We had all along supposed that the borrower was the "exchange committee", as shown in your letter of June 13th to the Treasury, and their reply of June 15th, whereas you and your New York City friends have always (or, at any rate, since their telegram to you of October 14th) understood that the borrower was the Bank of England. And you tell us that the bank actually figures as the borrower of the large sum now outstanding on the account in question.

I understand from what you tell me that it is necessary that the bank should continue as obligor on that special account, as the "exchange committee's" name would not be acceptable as a borrower. I am, therefore, willing that the bank's name should continue to be used for this purpose, provided that the loan does not exceed $100,000,000, at any rate without further reference to me.

With regard to the instructions which Messrs. J. P. Morgan & Co. in their telegram 33131 desire that we should give you in writing, I do not see how we can very well instruct you to use security which does not belong to the bank as collateral for borrowings in the bank's name, but I am in a position to confirm to you the fact that the Treasury authorize Messrs. J. P. Morgan

& Co. to hold as collateral for loans, on the special or number one account, all or any part of the Government's American or other securities in their possession or in transit to them, and all or any part of the gold in transit to them, holding or using all or any part of the said collateral in such manner as in their discretion seems necessary or wise.

Subject to the limit of $100,000,000, Messrs. J. P. Morgan & Co. have authority to make such advances to the Bank of England (for account of the exchange committee) on that special account as in their discretion seems necessary or wise.

I am, dear sirs,
Yours faithfully,

(Signed) CUNLIFFE, *Governor*.

E. C. GRENFELL.

MORGAN.

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4 AK 2

EXHIBIT No. 2654

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Dec. 5, 1916.

[Copy of telegram received 3 : 30 p. m. from Morgan, London]

26950. Refer to 26519. Although it seems hardly feasible at the present moment to talk of a new collateral loan, I should like to know whether you think the security mentioned by J. P. Morgan in 26519 would be suitable. I suggest that in your reply you should lay it down very firmly that you cannot bind yourselves now or at any time to recommend any collateral that will be surely suitable, but that in any case it would be useless to contemplate such a loan unless all the securities had been collected previously and were in shape to be deposited at once. I mention this because it has been very difficult hitherto to convince the authorities that securities collected after a loan has been issued do not form a satisfactory security. This is the more important now in view of the fact that the United States securities are diminishing in volume.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2655

4AK2

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Dec. 6, 1916.

[Copy of telegram despatched 10 : 25 p. m. to Morgan, London]

33077. 26950. With situation as it is and with Federal Reserve Board having put investors on notice to examine security carefully for any foreign obligation purchased, believe it would be most unwise to pledge as security for any new loan, when that becomes a possibility, substantial proportion of securities with which our investors are not familiar and about which they might easily ask questions that could not be satisfactorily answered when judged by our standards here.

If we could see our way clear to suggesting a secured obligation for $250,000,000 at the present time, our recommendations for collateral, having in mind what might be available, would be as follows:

$150,000,000 consisting of, say:

(A) $60,000,000 Americans;
(B) $40,000,000 Canadian Pacific Ry.; and
(C) $50,000,000 in obligations of the Dominion of Canada and its Provinces and municipalities.

The other $150,000,000 to be made up of, say:

(A) $50,000,000 Argentine Railway debentures;
(B) $25,000,000 Grand Trunk debentures;
(C) $25,000,000 British Railway debentures; and
(D) $50,000,000 divided among Australia, New Zealand, South Africa, Japan, Egypt, etc.

This is entirely a tentative opinion without discussing the matter with our associates, as it is quite clear that until further time has elapsed since the Federal Reserve Board statement was made and until the money situation clarifies it is idle to talk of attempting another operation.

When and as it becomes possible to take this subject up we should confer with our friends here and make definite recommendations.

Foregoing represents simply a suggestion; but due to the great advantage in having securities available as soon as anything can be attempted, we believe it would be well for authorities to work toward having available the above amounts, with the very clear understanding, however, that by the time another operation becomes feasible one or more of the above-suggested issues may not be usable, in our judgment.

MORGAN.

AMA TWL.

EXHIBIT No. 2656

66XXX

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Dec. 18, 1916.

[Copy of telegram despatched 10 p. m. to Morgan, London]

33518. 28297. Foreign securities. For E. C. Grenfell. Since my return I have looked into things pretty closely and am, of course, impressed anew with the difficulties we have to encounter in getting what the Allied Governments are entitled to expect. As I see it, even with the best will in the world and the utmost pressure, we cannot secure by loans the amounts the Governments want as fast as they might have them. The public which will invest simply in bonds is more or less limited and while it is increasing it has not unlimited investing power. We must, therefore, turn to another resource which we have hardly as yet tapped and which I believe could be used to great advantage in spite of being very distasteful to the British Government, that is the selling of some of their equities. There are, for instance, in the borrowed collaterals a very large amount of Canadian Pacific Railway shares. I quite understand that the Government does not like to enforce the sale of these shares, but I believe there are a large number of capitalists who would be glad to purchase something in which there is a certain speculative element, who would for instance buy $10,000,000 of some security which might rise when they would be disinclined to invest $2,000,000 in the form of a permanent bond. Foraestall Atlantic Leased Lines, San Paulo Railroad, London Lighting situation, Cuban Railways and others occur to me again, and I hope you will make it as clear as you can to the new Chancellor of the Exchequer and to the Premier if necessary to take the matter to him and that while I understand the exceedingly disagreeable character of our suggestion our advice is definite as it has been before, that we see no other way of accomplishing the raising of the necessary sums on this side. It is hardly necessary for us to point out that even if these shares are sold they can be bought back when the war is over and circumstances are different. We understand that it takes time to carry through pieces of business like those mentioned; meanwhile we may in a few days make some suggestions to you covering temporary measures.—J. P. MORGAN.

MORGAN.

EXHIBIT No. 2657

230
4AK2
171

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, December 20, 1916.

[Copy of telegram received 10 a. m. from Morgan, London]

28406. For J. P. Morgan. 33518 communicated and discussed with Treasury who will communicate same to Chancellor of the Exchequer, and hope for some message from the authorities in reply to your clear pronouncement.

Treasury ask me to inform you that Municipal Act was introduced in Parliament Monday, and it is hoped will pass before Christmas.

Treasury also ask whether without in any way committing yourselves you can give any indication as to whether a fresh collateral loan might be placed early in the new year.

Refer 26659. Treasury enquire whether there is any probability that loan to India could be issued on your side with success. Have you any reason to change your opinion as expressed 31674?—E. C. **Grenfell.**

Morgan.

Exhibit No. 2658

4–AK–2

J. P. Morgan & Co.,
Export Department,
New York, Dec. 20, 1916.

[Copy of telegram despatched 8 p. m. to Morgan, London]

33604. 28406. For E. C. Grenfell. Without committing ourselves, we have no hesitation in saying that it is our present opinion that, if the money market works around in better shape as we rather expect and unless something very radical happens to change the situation here, we should hope to be able, sometime in January, to arrange for a very considerable secured loan, terms, date of maturity, and all other questions to be settled when we get a little nearer to time. It is at present our idea that this secured loan would have to be of very early maturity in order not to interfere in any way with the market for the much desired, but still very doubtful, long time unsecured loan. In connection with the foregoing we feel impelled to call your attention to 33559, which you will appreciate might have a bearing upon the situation.

You will understand that all foregoing is said to you partly in answer to your question and partly that you may realize that all our thought in this connection is governed by the great desirability of the unsecured loan, and we will endeavor to make all our arrangements in such a way as to further the chances of success in that undertaking.

Our judgment is that just at present it would be unwise to even begin discussing an Indian loan.—J. P. Morgan.

Morgan.

Exhibit No. 2659

4AK2

J. P. Morgan & Co.,
Export Department,
New York, Dec. 27, 1916.

[Copy of telegram received 4 : 40 p. m. from Morgan, London]

28559. Treasury very gratified by tenour of your 33604.

As regards question of maturity of collateral loan, if it eventuates, however, Government feel strongly, subject to any overruling consideration that may be present to your mind, that it would be desirable to have three years and five years issue as in case of last loan.

Will you please consider and let them have your views?

Morgan.

Exhibit No. 2660

46a

J. P. Morgan,
Export Department,
New York, Dec. 26, 1916.

[Copy of telegram received 11 : 30 p. m. from Harjes, Paris]

18554. Referring to your 14882. We have not received any further news from you in regard to the effect of the Federal Reserve Board statement and are without any recent advices from you concerning the possibilities of Allied

finances generally. We are, therefore, somewhat in the dark, the more so as we have avoided getting into close touch with the authorities since our cable in 18435. We accordingly would greatly appreciate it if you would cable us the present position, especially as Ribot has gone to London accompanied by Mr. Homberg.

HARJES.

EXHIBIT No. 2661

46A

J. P. MORGAN,
EXPORT DEPARTMENT,
New York, Dec. 27, 1916.

[Copy of telegram despatched 9 p. m. to Ministere des Finances, pour Harjes, Paris]

30100. 18554. Federal Reserve Board apparently has been making some attempts through unofficial utterances and otherwise to make it appear that in their statement of some weeks ago they were not directly discriminating against French and British credit, but effect of these utterances has been negligible, and the fact remains that the statement has been a hard blow to credit of allied governments in this country. We are obliged to begin the educational process, to a great extent all over again, but, of course, the process ought to be less difficult this time. The only concrete effect of the statement apparently has been first in the distinct curtailing by Great Britain of her purchases here; the announcement being made that munition contracts to the extent of $300,000,000 or $400,000,000 will be transferred for 1917 from America to Canada. Second, the more rapid influx of gold than ever before. Of course, both these developments are distinctly to the disadvantage of American trade. Furthermore, Canada being unable by herself to finance such large contracts, will look to the United States to carry her, and if United States does this she will simply have taken upon herself the burden of carrying these large credits for one of Great Britain's colonies and meanwhile have lost all of the compensating trade that goes therewith.

As to new financing, we are waiting upon word from the conference in London of the Allied financial representatives. The Federal Reserve statement was, as you will recall, immediately followed by the change of Government in Great Britain and E. C. Grenfell cabled us that they would not attempt to give us their further views as to future financing in America until after the conference which you mention.

Meanwhile, in reply to inquiry, we have told E. C. Grenfell that some time after the new year, if possible before February 1st, we should hope to be able to put out a new British short term loan secured by Americans and other mixed collateral. Frankly, we do not yet see our way through the operation with friendly institutions carrying so much of outstanding loans and with quotations for all of them below issue price, but we are in hope that light will come from some quarter and believe that we can carry through this projected issue. For your information, all Allied issues here show substantial decline, the city of Paris and other French municipals the greatest, now selling at from 6⅞% to 7¼% basis.

Notwithstanding the outlook as described, some of us are still in hopes that before the new year is too far underway we can undertake a long term unsecured French loan of $100,000,000, upon the basis of appealing strongly to the old-time sentimental friendship existing between France and America. We have in mind your 18405 regarding Allied loan. but see no present prospect of anything in that line. We have long had in mind that when time permitted we should endeavor to devise a new and large Anglo-French issue for the purpose of taking up outstanding Anglo-French loan 1915 as well as furnishing additional funds, but this is entirely in the future.

MORGAN.

TWL.

EXHIBIT No. 2662

31 BOULEVARD HAUSSMANN,
Paris, 31st, Dec. 1916.

Private ERS
L/R.

DEAR JACK: I have just had a long talk with Mr. Ribot and handed him your new year cable (which by mistake had been handed to the firm with the usual war cables), which he much appreciated.

He was in good spirits after his trip to London, from whence he has just returned with the answer to the U. S. note, which he hopes will duly come out in the next forty-eight hours. He was not tired, which surprised me considering the strenuous conferences which he had to attend during his three days' stay, and seemed desirous of speaking freely, though of course absolutely confidentially, of his impressions and of what had been accomplished.

He apparently, on the whole, had a very satisfactory visit, but he told me that he understood the British financial requirements to be something stupendous, and that it was a problem to know how they could be met, so much so that as regards America it had been clearly insinuated to him that England would really have to monopolize the House of Morgan for its own issues, and that France had better look elsewhere; in fact, that it had been even implied that France should make exclusive use, so to speak, of Messrs. Kuhn, Loeb & Co. Mr. Ribot said. of course, that that was out of question, and that he had told them that they in England had been the first to urge the use of the House of Morgan, etc., etc.

I reminded him that I had several times in the past suggested to him the possible advisability of their making use of some other firms' services for financing, if he thought he would be better served, which I did only recently when he so criticized J. P. M. & Co.'s action in the Treasury note matter, and that therefore he must know that I would not take umbrage at such a move if it would better the general Allied situation, but that I had always understood that the "Allied" financing was so closely associated that one house must of necessity control the whole; that. in fact, this was supposed to be the main purpose of our London conference in October. Moreover, its necessity had been clearly demonstrated by the Kuhn, Loeb municipality incident, etc., and that for these reasons I could not well understand London's suggestion and would be inclined to doubt its wisdom as regards the greater benefit to the Allies' cause generally.

He said that London did not seem inclined to agree with the contention that whether the City Bank, or any other new connection was used, or J. P. Morgan & Co., it would to a great extent be the same money or group which would be at work, and that they seemed to think that a French issue by a different group or under a different "etiquette" might be the best way out for him.

Mr. Ribot said he had only spoken in very general terms to them in London (as he was so busy with the note and other things) and had not discussed the American financial situation in detail, but that was apparently the impression he had gathered.

Mr. Ribot, however, said that anyway he did not agree with them and would always give the house of Morgan first chance.

I asked him for how long he was provided in America, and he replied that he was not quite sure; that he was now living on the commercial credit, but thought he had about enough to last him till the end of January. He added that he had enough neutral securities over in the States on which to borrow about *$50,000,000* and he might go to *$100,000,000*, but that you were now coming out with a *$300,000,000* collateral British loan and that February would probably see another issue, so he did not see where he was coming in.

Mr. Ribot then spoke to me about a new law to be passed promptly to put up the tariff of the French railways and that he thought this increase in tariff would provide practically *frs. 250,000,000* annually, which could well serve as a basis for a big railway loan in America having as collateral a first lien on this increased revenue, etc. He said that when the time came he would ask you frankly if you could handle the matter before doing it through anyone else.

His whole attitude was most kind and fair, and I told him I would like to write you fully on the subject to keep you posted and get your views. He replied that all he had told me (a great deal bearing on general war matters and not repeated herein) was most confidential, and he seemed to prefer my not writing to you too fully on the subject, but I told him that I thought it was only right for his own sake and the Allies generally that I should inform you of what I had heard from him concerning the huge British requirements and his own necessities so as to give you the possibility of coordination and, if possible, get your views or suggestions. He quite agreed to my writing you this, but I do not know whether it included my telling you of London's apparent suggestion to make use of others than yourself; and I think, therefore, that this information should not be made use of by you, particularly as, of course, he may somewhat have overstated the British attitude, or I may have exaggerated it in my own mind.

When you receive these lines, I would much appreciate a cable from you giving me your views, etc.

Of course, we are quite certain that you will handle the whole situation with the one and only consideration in mind of attaining the best results possible for the Allies. That is also, naturaly, our sole end, and we will be entirely satisfied with your decision; of that you can rest assured.

I cannot help hoping, however, that you may find some way of not disassociating the British from the French financing, if in any way possible. Of course, we have always understood that such a move would be most unfortunate for the Allies' own sake, and that the finding of financial accommodation in America was really a joint operation, and not separate ones, on behalf of the Allies; in fact, that it would be decidedly harmful if there was to be any kind of competition between themselves on the New York market.

From a purely selfish sentimental point of view—the material one does not count—it would be a very serious blow to us here in Paris. From the first hour of the war we have put ourselves at the disposal of the Government, and we have always been happy to think that the first Allied transaction with J. P. M. & Co. was, if I am not mistaken, the early cable transfers against gold deposits with us. We have ever since endeavored to do all in our power to help our friends; and the satisfaction of working for and assisting them has more than counterbalanced a good deal of the "upsets", and it would be a great sorrow for us to feel that we could not do so any more.

Above all, however, it is our earnest desire that the succession of three generations of Morgans, in one unbroken chain, as the devoted friends and supporters, I might even say "ally", of France, should be maintained, and that after all that has passed since the beginning of the present great struggle, no one else should come between you and this country to break the continuity of an inspiring and traditional association.

With my affectionate regards, believe me,
Yours ever,

H. H. Harjes.

P. S.—Please tell Davy that I lunched yesterday with General Nivelle, who asked particularly about him and expressed the hope that he would have the pleasure of seeing him back here shortly.

H.

2nd P. S.—2nd January.—I have just had another talk with Mr. Ribot and also a separate one with Mr. Homberg. From the latter I hear that the advice given to them in London to make use of other bankers in case of need was even stronger than described above, and apparently done in the spirit of wishing to have the field alone for themselves for their immediate requirements; but that both the Minister and Homberg, who takes great pains to be friendly, would not agree in any way and argued that, on the contrary, they would hope to always work with you.

H.

J. Pierpont Morgan, Esq.,
New York.

EXHIBIT No. 2663

4AK2

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, December 28, 1916.

[Copy of telegram despatched 7 p. m. to Morgan, London]

33836. Looking forward to the possibility of a fresh issue, we wish to put you completely in touch with certain features of the situation as follows:

First. The outstanding issues of foreign loans were quoted this morning as follows:

Anglo-French 5's	92¾, approximately 7¼% basis.
United Kingdom 2-year	98⅛, 6.20% basis.
United Kingdom 3-year	98½, 6.10% basis.
United Kingdom 5-year	98, 6% basis.
City of Paris 6's	96, 7% basis.
Other French municipalities	96½, 7.40% basis.

Second. If the new issue is to be made soon, it seems to us the market for the outstanding United Kingdom notes should be brought up to, at least, issue price and firmly held. Of course, the Anglo-French five's ought to be improved also, but the volume outstanding is so large that we do not see any effective method of doing so. The United Kingdom notes are still largely held by friendly banking institutions; but we have with the trustees of the first loan $2,000,000 and of the second loan $10,000,000, resulting from sales of pledged securities, which amounts could be used in supporting the market. Further, the amount available with the trustee of the first loan could, if necessary, be increased through the substitution of securities now owned by the Treasury in the place of deposited securities which have been borrowed. In this connection at the time of first loan we calculated on having $100,000,000 Americans to be utilized, if necessary, for repurchase of notes; but in order to avoid tying those all up in first instance, we actually pledged only about $50,000,000 Treasury American securities and $50,000,000 loaned American securities, hoping it might not be necessary to use more than $50,000,000 for repurchase purposes.

Third. Our own holding in second loan is approximately $16,500,000. You will realize that it is unwise for us to add further to our holdings of either of these issues for our own account; in fact, as former Chancellor and the Governor have both pointed out, it is important that we should keep ourselves prepared for further operations and be able to act on a large scale in temporary emergencies as at present.

Fourth. In view comparatively small amount Americans in Treasury account we see great difficulty in finding sufficient saleable Americans to take care of market position of first United Kingdom loan through method indicated above and have anything left over for protecting proposed loan; reason being that while we have a large amount of Americans available, they are almost all loaned securities and, therefore, under present instructions not usable for sale and repurchase of notes. To cure this defect we have three suggestions:

(A) The Government might purchase with the proceeds of the next loan some short-term American securities which could be used as collateral and, if necessary, sold to protect the market price of the issue.

(B) The Government might authorize us to pledge, with the expectation of selling some of securities deposited under scheme B, under which we have received approximately $14,000,000 Americans, excluding Canadian Pacifics, with the intention of covering in market later on so as to return the borrowed securities at the end of the 5-year or 3-year period, choosing, of course, for sale such securities as had a broad market and could be repurchased. In the improbable event of not being able to repurchase the Government is, of course, protected under its rights of purchase under scheme B.

(C) The Government might authorize us to sell some of the American securities borrowed under scheme A, involving, as we understand, immediate settlement with the depositors. We understand this not only runs counter to plans heretofore made by your authorities but also might be most disquieting to those who deposited the securities. You will know better than we whether the emergency which exists warrants a change in plan and a calling upon owners of these securities to make even greater sacrifices than they have heretofore been asked to make. It might, however, be wise to bring all possible pressure to have American securities transferred from scheme A to scheme B so that the Government would be empowered to deal more broadly with deposited securities than the scope of scheme A gives it. You will notice that the amount of Americans mentioned above as deposited under scheme B is comparatively small and would not in all probability be sufficient for the purpose required.

Fifth. We do not want you to feel that we are discouraged. We do think, however, your authorities should have clearly before them the softness of the market for existing loans and the danger of this interfering with the success of any future loan. We are setting out the case fully to you, as we desire your views and opinion.

28559. We will consider and will advise later.

MORGAN.

TWL.

EXHIBIT No. 2664

46A

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Jan. 29, 1917.

[Copy of telegram despatched 8:45 p. m. to Ministere des Finances, pour Harjes, Paris]

30397. For H. H. Harjes. Your letter of Dec. 31st to J. P. Morgan. You are correct in believing our desires to be first of all to serve the cause of the Allies, and at the same time the commercial interests of our own country, these two objects being in our judgment supplementary to each other. We are still willing, as always, to sink our own individuality for the good of the general cause, but in specific reply to your inquiry it would in our judgment serve no useful end to transfer the financial representation for France from our house to some other house active in our group and in allied financing. In such case practically the same amount of responsibility would still come on us as now, and yet we are doubtful whether any other house would be able to command the same degree of cooperation. In our discussion of this matter we do not mean to suggest Kuhn, Loeb & Co., but, as you can appreciate, should your Government be inclined to transfer to them the sooner this change were brought about the better for all concerned. We are, however, happy to accept your assurance that M. Ribot desires to have us give our continued efforts in France's behalf and you may assure him in return that we are zealous to do so. We trust that you will make clear to him that our greater activity in loan offerings for Great Britain has been manifestly and largely due to the fact that Great Britain has been able to command readily a much greater volume of collateral securities well known to American investors and has been able to make her loans attractive by large admixture of strictly American stocks and bonds. For your information we are glad to state that Great Britain has made no suggestion to us even in the remotest terms of confining our operations to that country, and we should think that if her authorities had it seriously in mind, as you indicate, they would almost certainly have given us some inkling of this thought.

As to immediate operations in behalf of France, we have cabled you 30353, and shall be glad to have you cable us more fully your ideas with respect to a French Railway loan. Meantime we urge upon you the desirability once more of canvassing carefully the possibilities in our 30331. Please assure M. Ribot of our earnest good will and continued desire to serve acceptably the cause of France.

MORGAN.

TWL

EXHIBIT No. 2665

4AK2

[Copy of telegram despatched 11 p. m. to Morgan, London]

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Jany. 5, 1917.

35165. 28768. We are appreciative of Treasury's attitude and are making every endeavor to hasten proposed transaction. To this particular end, we have been sounding the public in the last few days, both personally and through various press items. We quite understand Treasury's reluctance, which we share, in matter of option or conversion, but we must point out to you that conversion into a 5-year bond could not be regarded today as any inducement.

Treasury's suggestion is in effect as follows: On, say, February 1st, 1918, holder of new United Kingdom note could convert at par into unsecured 5½% bond running until February 1, 1922. But the American investor can today purchase upon about a 6% basis a United Kingdom bond amply secured by collateral and falling due on November 1, 1921. This being practically coterminous with the suggested unsecured conversion bond. Or investor can obtain an Anglo-French bond maturing in October 1920 yielding approximately 7%. The reason why we deem it essential for the success of the proposed issue to offer a conversion privilege that has decided advantage over outstanding issues is this: Banking institutions are still such large holders of United Kingdom loan no. 2 that, owing to various limitations, with which you are familiar, it will be impossible to count upon them for subscriptions anything like so heavy in the proposed loan as before. Likewise, we cannot look to the munition manufacturers for heavy subscriptions as heretofore. In all the issues till now we have pressed them vigorously, and most of them still have on hand the notes of former issues which they have been unable to liquidate at cost. In fact, we believe it is not too much to say that the only munition makers who have liquidated their interests have been those who have been willing to do so at a loss. All of them who have not heretofore taken their loss are still carrying notes at figures far below cost.

Therefore we must rely more upon the individual investor and must devise some scheme that will appeal to him. We have in the last three weeks canvassed and discarded a large number of plans, all with same end in view. We were finally driven to return to a plan of conversion as the only one offering proper inducement. The plan outlined in 33945 represented, however, as already stated, purely our own suggestion, without consultation with anyone. We have just consulted tentatively with the most important members of our group, and to our regret find that they are unanimous in believing that investment buyers will not be attracted by conversion bond except with 15-year maturity instead of 10. Further, they are convinced that we must offer 1-year note upon 6% basis.

We have endeavored, without success, to urge upon group feasibility of at least plan outlined in 33945, but they are convinced that we should not have success in arranging for anything like amount mentioned under such plan. They iterate again the unfavorable features of the situation, namely, the discount at which all allied loans are selling, the fact that friendly banking institutions are so loaded up with United Kingdom no. 2 as to make their fresh participation to a large extent very doubtful, and, further, the banking community has been disturbed by a reiteration from Washington of the position of the Federal Reserve Board. This, as a matter of fact, is merely the official publication of the statement which was issued in November, but some of the newspapers seized upon it as a fresh outgiving and published versions which cannot fail to be harmful in their effect.

Our group has in the past been so uniformly devoted to the interest of the Allies and has shown such sacrifices and industry, and yet has been so nearly right in its composite judgments, that we ourselves are convinced that it would be unwise to attempt to proceed along lines which appear to them as unsuited to gain success in the present unfortunate state of our markets as to allied loan operations. As a result of these conferences and of our own sizeup of the situation, our advice is that the treasury consider granting us authority at once to arrange for an issue of $300 000,000 as a maximum and $250,000,000 as a minimum of 1-year 5½% notes, secured as arranged, to be sold to the investor upon a 6% basis, to bear a clause permitting conversion at any time prior to maturity into 15-year unsecured obligation dating from time of original issue, bearing interest at 5½%, with a privilege on the part of the Government of calling new issue at any interest period after 10 years has elapsed at 102½ and interest. There should be allowed for underwriting syndicate 1¼% and for our own remuneration ⅜ of 1%.

Favorable as these terms may seem to the investor, we should not feel like entering the undertaking without some arrangement with Bank of England for underwriting and purchasing, suggestions covering which we will cable you tomorrow. We are well aware that all the foregoing recommendation will prove distasteful to the treasury, but it has hitherto handled its matters here with such soundness and wisdom that we cannot think that it will permit to slip by what we regard as possible opportunity to secure for Great Britain the amount mentioned in 33945. The terms as therein outlined cannot on the whole be considered as discreditable to Great Britain in comparison with her domestic loans issued under such different conditions. If treasury should grant the authority suggested, it may rely upon our improving terms for its benefit should conditions here at time of issue permit. For instance, we have it in mind to try to force the issue of two maturities, viz, ½ total amount for 1 year and ½ for 2 years, each with same privilege of conversion. We also have it in mind, if it can possibly be accomplished, to offer the notes upon 5¾% basis, but should not be limited to these changes.

In considering this matter we ask you to bear in mind fact that we are in effect endeavoring to arrange for long-term unsecured loan for Great Britain, and while the charges incidental to 1-year note will seem onerous, these will be comparatively negligible if spread out over longer period. If terms of issue as to rate of interest and conversion can be agreed upon, believe we can deal with collateral as mentioned our 33077.

MORGAN.

EXHIBIT NO. 2666

4AK2

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Jan. 6, 1917.

[Copy of telegram despatched 6 p. m. to Morgan, London]

35177. 35165. Referring to matter of co-operation from your side. We are, for obvious reasons, exceedingly anxious to keep our own commitment, both in underwriting and in purchases, down to the lowest possible point, but feel that the situation calls for strong and united action. The situation over here is so confusing and uncertain that we should be altogether doubtful of the wisdom of proceeding in the issue without having an agreement between the Bank of England and ourselves to underwrite equally $150,000,000, if necessary, and also to purchase in equal shares a total of $150,000,000, if necessary. In this connection we point out to you that no. 1 and no. 2 call loans now exceed $255,000,000, and that our interest in them is now $122,500,000. The chances are that the projected issue, even if successful, will hardly be sufficient to pay off the amount of loans nos. 1 and 2 as they will then exist. But for the moral effect it will be essential to pay off all participants, thus leaving us in a position still carrying a larger amount of call loans. We ourselves also have on hand approximately $15,000,000 United Kingdom loan no. 2, which, of course, shows a loss. We set forth these matters not in a spirit of complaint but in order to acquaint you fully with situation and with realization of difficulties inherent in it.

We hope you will appreciate that until we have had meeting of complete group, ideas as set forth to you are all tentative and in almost every instance subject to suggested changes. This is especially true today because of confused situation existing, as already set forth you in various cables.

MORGAN.

EXHIBIT No. 2667

4AK2

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, January 10, 1917.

[Copy of telegram received 4 : 45 p. m. from Morgan, London]

28945. Following is from treasury:

The treasury have received and carefully considered your 35165. In view of the earnest advice offered by your associates and yourselves, they accept your suggestions as follows:

1. You will arrange for an issue of $300,000,000 as a maximum and 250 as a minimum, of one-year 5½% notes, secured as arranged, to be sold to the investor upon a 6% basis, to bear a clause permitting conversion at any time prior to maturity into a 15-year unsecured obligation, dating from time of original issue, bearing interest at 5½%, with the privilege on the part of the Government of calling new issue at any interest period after 10 years have elapsed at 102½ and interest.

2. There shall be allowed for underwriting syndicate 1¼%, and for your own remuneration ⅜ of 1%. Treasury will, however, be glad if you can, as suggested, force two maturities, half for 1 year, half for 2 years, and secure a 5¾% basis, if at all possible. As regards your 35177, Bank of England will agree with you to underwrite equally $150,000,000, if necessary, and also to purchase in equal shares a total of $150,000,000, if necessary.

MORGAN.

EXHIBIT No. 2668

4AK2

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Jan. 12, 1917.

[Copy of telegram despatched 10 p. m. to Morgan, London]

35445. 35377. To the Treasury. Our delay in reply has been due to increasingly difficult market conditions and seeming impossibility of commanding sufficiently wide co-operation from selling houses to enable us to put through operation along precise lines suggested by us 35177, 35165, 33945, and confirmed by you in 28945. The changes which seem now to be in order are as follows:

1. We are hopeful of making one year maturity for only $100,000,000, and swinging remaining $150,000,000 into 2-year maturity, total issue thus being $250,000,000.

2. We find it necessary to eliminate entirely 10-year callable clause. Selling houses maintain, with much reason, that with market in its present condition there is little use in appealing to the investor on the basis of a long-term conversion if at the same time we nullify that privilege by inserting a callable clause at a price as low as 102½. We could, of course, suggest a higher callable price, but it would be so high as in our judgment to appear undignified, and therefore we think it much better to omit entirely any reference to this.

3. Allowance for underwriting syndicate should be 1½% instead of 1¼%, this comparatively small increase being due to various causes, but chiefly to fact that all underwriters who took on the last two United Kingdom loans have seen material loss through the declines which have taken place, and some method must be adopted to secure the continued co-operation of these underwriters by recouping them in some slight measure for this loss.

Also, 4. There should be a special ¼% allowed for group just as in instance of last loan. Changing the majority of maturities from one to two years make this charge for treasury less onerous. Further, you will remember that we were finally able to effect a saving to the treasury out of this sum, and without any commitment we should again do everything along that line that would be for the ultimate interest of the treasury.

5. Refer to 33836, we again strongly recommend using a portion of the loan not to exceed $25,000,000 in purchasing short term American securities suggested in paragraph 4, section A, unless treasury prefers to take over as part of foregoing amount some of the $14,000,000 securities mentioned in section B.

6. The same arrangement as to expenses as in United Kingdom loan no. 2, see 33945, paragraph 7. This is not a change but we are not certain that we brought out the point properly in our last cable.

7. We should be authorized in accordance with the general policy which the Government has adopted in England to state that if to any succeeding United Kingdom loan there be attached conversion privileges more favorable than to immediate projected loan then holders of projected loan should have the right to the new and better conversion privilege. We are not attempting to phrase this point accurately in this message, but to indicate the necessity for announcing some general policy here in accordance with the general principle adopted in England of protecting the investor.

We believe it to be unnecessary to enlarge upon the necessity for these suggested changes. In 35137 we pointed out that owing to the confused situation existing it might be necessary to make essential changes in our own tentative ideas, and even with the changes suggested in this cable we must confess ourselves as not over sanguine of brilliant success. We realize that all foreign credits here have undeservedly received a severe setback through the action of the Federal Reserve Board, resulting in decline of all foreign securities here. For this reason we feel that Government must shape up the forthcoming loans with such terms as in our judgment would go far to eliminate any chances of failure. Such a policy is the only method that can be adopted to save Government still more onerous terms in future operations which we are bound to look forward to. We hope that you will appreciate that being so keen to put through a new issue and realizing so fully the necessity for it we ourselves are inclined to suggest to treasury terms which we are hopeful of accomplishment, but which we find impossible of fulfillment when we start in to seek necessary cooperation of houses whose interest in the situation is more or less remote, or at best largely dependent upon our own urging.

Owing to heavy pressure of situation, we hope you will be able to forward definite authority by our opening Monday.

MORGAN.

EXHIBIT NO. 2669

4AK2

J. P. MORGAN, & CO.,
EXPORT DEPARTMENT,
New York, Jany. 16, 1917.

[Copy of telegram despatched 8:45 p. m., to Morgan, London]

35572. After receiving final authority from you, we contemplate issuing a statement in the following form, subject to change:

"The British Treasury has this day authorized us to issue a new loan of the United Kingdom in the amount of $250,000,000; to be dated February 1, 1917, to mature as to $100,000,000 on February 1, 1918, and as to $150,000,000 on February 1, 1919; to be secured by the same general assortment of high-grade collateral as prevailed in the last United Kingdom issue; to bear interest at the rate of 5½% per annum; the notes of each maturity to be convertible at par at the option of the holder prior to maturity, into a 5½% bond of the United Kingdom of Great Britain and Ireland maturing in 20 years.

"Increasing ease in money conditions and the prevailing demand for high-grade bonds have led us to suggest to the British Treasury the advisability of issuing at this time a security possessing the advantage of early maturity and at the same time giving to the investor the opportunity to obtain an obligation of Great Britain yielding an attractive interest return for a period of years after normal conditions shall have been restored."

MORGAN.

TWL.

EXHIBIT No. 2670

4AK2

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Jan. 17, 1917.

[Copy of telegram despatched 10 p. m. to Morgan, London]

35628. 30189. Fully understood and we have this day made announcement of the forthcoming issue in the terms of 35572, making only minor verbal change at the end of the last paragraph.

Very likely effect of terms of new loan will be to depress somewhat further outstanding loans, but this cannot be helped, for as already explained it has become necessary to lay out very attractive terms in order to secure support from investors. We have a feeling that your authorities may not fully appreciate the absolute necessity of the various changes which reluctantly we have been obliged to suggest as contrasted with our own original views as furnished, but we are sure you will make clear to them that situation, for this issue has been more difficult than in case of either United Kingdom loans one or two, and there has been much lethargy to overcome. We have given our best efforts unstintedly and we are now working very hard in hope of making loan so popular as to command some little premium which would be more help to your credit situation here than any other one factor.

We start to form syndicate tomorrow, hoping to hasten this so as to issue on the 24th of January and have new funds available on or about February 1st.

Will keep you fully informed.

MORGAN.

TWL.

EXHIBIT No. 2671

4AK2

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Jany. 23, 1917.

[Copy of telegram received 10:16 a. m. from Morgan, London]

30339. Following is from treasury:

Your 35763 at end. Treasury would prefer to support market, if this proves necessary, by sales of unpledged securities. Would therefore suggest that purchased American securities should be kept free and collateral made up so far as possible exclusively of deposited securities.

Will be in position Thursday to cable you fuller information as to plans referred to our 30166.

MORGAN.

EXHIBIT No. 2672

4AK2

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Jan. 23, '17.

[Copy of telegram despatched 11:15 p. m. to Morgan, London]

35824. 30339. We have heretofore stated to group that we could keep market situation of these issues reasonably in hand through specific authorizations of sale with respect to the pledged collateral, and as to the new loan, the inference was perfectly clear, even if not definitely stated, that the same course would be followed. We think it most unwise to advise them, as we should feel compelled to do, that we had no specific authority as to selling any of the pledged securities. We, therefore, advise that the situation be left unchanged involving the pledge of approximately $22,000,000 of Treasury securities, leaving open for future consideration the question of releasing any unsold Treasury securities by means of substitutions of American dollar securities if their retention for the purposes of sale become no longer desirable.

MORGAN.

AMA.

Exhibit No. 2673

4AK2

J. P. Morgan & Co.,
Export Department,
New York, Jan. 29, 1917.

[Copy of telegram despatched 6 p. m. to Morgan, London]

37032. 35997. Subscriptions exceed total issue. We hope by means of our own and group's subscriptions to bring total up to an amount where it will be necessary to cut down large allotments, believing that this outcome will be calculated to improve market for other outstanding issues.

Morgan.

TWL.

Exhibit No. 2674

66XXX/66-4

J. P. Morgan & Co.,
Export Department,
New York, Jany. 23, 1917.

[Copy of telegram received 4 : 22 p. m. from Morgan, London]

30360. Denkstein. For J. P. Morgan or T. W. Lamont. Chancellor asked me today if it would be agreeable to you that he should send Samuel Lever, Financial Secretary to the Treasury, to visit New York City and discuss financial matters with you. I told him I knew you would welcome his coming out and that I personally thought no better person could be chosen. I will cable when he is to arrive, but meanwhile it is essential no one here or in New York City should know of his sailing. He has no proposals to make, but will be able to report first-hand to Chancellor of the Exchequer on his return. His official position is that held for a long time by Hon. E. S. Montague.—E. C. Grenfell.

Morgan.

Exhibit No. 2675

66XXX/66-4

J. P. Morgan & Co.,
Export Department,
New York, Jan. 23, 1917.

[Copy of telegram despatched 7 p. m. to Morgan, London]

35818. For E. C. Grenfell. 30360. Delighted to have him.—J. P. Morgan—T. W. Lamont.

Morgan.

TWL.

Exhibit No. 2676

397

J. P. Morgan & Co.,
Export Department,
New York, Jan. 29, 1917.

[Copy of telegram received 1 : 20 p. m. from Morgan, London]

30500, 35582, and subsequent cables. Treasury regret they are unable to approve the method of deferred payments suggested in connection with the purchase of agricultural tractors from International Harvester Corp'n and other similar cases. In Treasury's view the guarantee of Government orders by joint-stock banks in any form is in effect a weakening of British Government's financial prestige which would operate to prevent the acceptance of any other form of deferred payment in future. Moreover, Treasury could not in any case rely upon consent of the joint-stock banks for operations of the kind suggested, save to very limited extent.

Morgan.

EXHIBIT No. 2677

230

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Jan. 3, 1917.

[Copy of telegram received 11:43 a. m. from Morgan, London]

28754, 33995. We quite understand your views that fresh United Kingdom loan should, if possible, be brought out at earliest opportunity. This should not interfere with negotiations for Londons here which have got to point at which we should wish to talk figures with finance committee of London Council, to be submitted to meeting on January 24th. It would therefore be helpful if, with Byrnes, we could talk total amount, duration, and net rate including commission of group and yourselves to the chairman of the council at once, not involving any definite commitment until January 24th.

We note you speak of smaller amount [now] than $50,000,000. We presume you would not wish to do less than $25,000,000 with an option, say, on a further $25,000,000. We can make no further progress without your views on above.

MORGAN.

NOTE.—Pencil notation enclosed in brackets.

EXHIBIT No. 2678

230

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Feb. 2, 1917.

[Copy of telegram received 12:58 p. m. from Morgan, London]

30666. 37122. Chancellor of the Exchequer deprecates delaying London County Council or other municipal loans. Mr. Samuel Lever will be with you in a week's time; but if you are able to make any proposals on London before his arrival, please do so.

Should be glad to have your views on present state of your market and price of United Kingdom no. 3.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2679

4AK'

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Jan. 22, '17.

[Copy of telegram despatched 11:30 a. m. to Morgan, London]

35763. 30296. Canadian Pacific Ry. Debentures and Preference. Will act accordingly. As to obligations guaranteed by or lease to Canadian Pacific Ry., regret that in pressure of work incidental to getting business under way, we did not recall your 29744, our 24991. After cabling you as per 35165, on January 5th and receiving no adverse comment that we felt we could arrange collateral as mentioned 33077, we proceeded as per 35445, 35525 and sent our invitations to proposed syndicate members on eighteenth, stating securities in group One to be made up as follows:

"Stocks, bonds and/or other securities of American municipalities and/or corporations (including among the corporations the Canadian Pacific Ry. Co.) and bonds and/or other obligations (either as maker or guarantor) of the Government of the Dominion of Canada, the Colony of Newfoundland, and/or provinces of the Dominion of Canada and/or approved Canadian municipalities."

This phraseology following that of former loan.

Our counsel hold that in phraseology as used, we should not take obligations of Canadian Pacific Ry. other than direct obligations. This situation may be altered by outcome of negotiations under way with Canadian Pacific Ry. toward refinancing such indirect debt and converting it into dollar form. Sincerely regret this omission to include indirect obligations of Canadian Pacific Ry.

and trust that inasmuch as amount is not large and is under negotiation, along other lines designed to assist exchange situation, treasury will not press this point. Counsel hold that, although we have mentioned Canadian Provincial and municipal debt among securities which may be included in group One, there is no obligation actually to pledge any of these. We shall probably include names of such securities in security list attached to pledge letter, as before. Referring to 33836, paragraph four, how do authorities plan to provide sufficient saleable securities, in view considerable period which must necessarily elapse before any definite results about refinancing Canadian Pacific Ry. debenture stock? Feel we should have some further light on this point. Reply to foregoing, also reply to 35704, should reach us our opening tomorrow, as we plan to advertise on Wednesday. You appreciate that, once having set machinery in motion, it is most unwise to delay unduly any customary step.

MORGAN.

AMA

EXHIBIT No. 2680

226AD

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, April 5, 1917.

[Copy of cable despatched 9: 00 p. m. to Morgan, Grenfell & Co., London]

41584. 34475. Canadian Pacific Railway. For your information we understand that British treasury and Canadian Pacific Railway have now reached a working agreement. Question now before us is whether we can form a syndicate to sell these bonds at a price sufficient to warrant treasury in proceeding with transaction rather than waiting with idea that congressional action will grant credit to Allies promptly enough to solve their pressing requirements. Terms proposed are to attempt formation syndicate to offer at 97 approximately $200,000,000 of new Canadian Pacific Railway dollar bonds secured by deposit of debenture stock with syndicate commission of 2¼% plus ¼ of 1% as special confidential compensation to group of bankers hitherto interested active and helpful in Canadian financing. Our own compensation to be ¼ of 1%. This would mean a net price to treasury of 94¼. Syndicate to pay all expenses of offering and advertising. At price of 97 yield to investor on thirty-year bond is 5.20%. This compares with the following bases upon which outstanding government securities are now being bought:

United Kingdom no. 1	7%
United Kingdom no. 2	6¾ and 7%
United Kingdom no. 3	5⅝ to 6%
Last French loan	5.95%
Dominion of Canada 10-year bonds	5¼%
Dominion of Canada new domestic	5.35%

All things considered, we regard this price as satisfactory to the British treasury, and in view of pressing needs as far preferable to waiting upon indefinite action of U. S. Congress; in fact, reports from Washington, D. C., today are that projected U. S. issue for its own purposes may be much larger than anticipated. There is, moreover, a distinct tendency already visible here on the part of investors to withhold funds for investment pending Government announcement and to save all investible funds for Government issue—the same sort of spirit that has so fortunately prevailed in Great Britain. This, however, is factor making against ready sale of Canadian Pacific Railways. Another factor is that they are not legally available for life insurance companies, savings banks, or trustees in most important States here. Upon thirty year bond price to treasury named is about 5.38 basis on twenty year bond, if treasury should call at end of that period about 5.47 basis—neither figure being at all discreditable. We are explaining whole situation in detail to you, so that if and when you confer with officials you may see the picture of our position. You are aware of the present status of call loan and while owing to payment for French loan we are temporarily in better shape, we should deem it very imprudent not to take advantage of any such large possibility offering as this to create exchange. We are most helpful that congressional action will be generous and favorable, but, as you well know, it may be long delayed. They may decide to attempt to legislate covering taxation and allied credits at the same time. If so discussion would cause further delay. Situation for projected Canadian Pacific Railway operation will in our judgment grow steadily worse rather than better, therefore if we are to proceed at all feel it essential to begin formation syndicate Monday. Frankly, in view of rates of interests obtainable on outside Government issues, we are agreeably surprised to find as much confidence as we do that operation can be carried through on lines above described.

MORGAN.

TWL.

EXHIBIT No. 2681

226AD/16a^{2}

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, April 10, 1917.

[Copy of cable despatched 7 p. m. to Morgan, Grenfell & Co., London]

41732. 34551. Denkstein. For your information, Treasury confirmed plan outlined in our 41584, but since that time financial community has been growing steadily cooler towards this proposition because of the several semi-official announcements from Washington: First, as to an impending issue of Federal Treasury bonds much larger than heretofore contemplated, which, of course, would be free from income tax; and, second, as to the probable heavy increase in personal income taxes, which would work against holders of these Canadian Pacific bonds, particularly against large buyers, upon whom the heaviest income tax would fall, and thus make absorption of $200,000,000 extremely difficult, if not impossible. For these reasons, frankly, we do not dare attempt operation except with exceedingly active co-operation of Treasury. We propose that Treasury authorizes us in our discretion to put it into underwriting up to $100,000,000, and into subscription, after issue has been made, up to an equal amount. We do not suggest that either one of these commitments should be as in former United Kingdom operations for joint account of Treasury and ourselves, for the reason that we have already $233,000,000 of commitments in the allied loan situation, and it would not, from the point of view of either Chancellor or ourselves, be prudent to go further. We have explained the whole situation to Sir Hardman Lever, who is in Washington, and he is cabling the Chancellor direct. In further explanation, we again stress the fact that if the operation were smaller, the financial community would feel much more confidence. It is the last $100,000,000 of bonds that they are afraid will be slow, and that inspires their present great reluctance. We point out to you that even if Treasury should be the gainer by this operation by only $100,000,000 net, it would be just that much better off than at present. Furthermore, as we figure it, Treasury has already accumulated upwards of $144,000,000 of these securities and might just as well utilize them for this operation, particularly as proposed form of indenture would make it possible to surrender its bonds and get back the collateral for return to depositors if it should wish to do so. The argument still holds good that it is wise to try to proceed with this operation now, because, as Secretary McAdoo explained confidentially to J. P. Morgan yesterday at Washington, it is uncertain just when and in what manner Congress will handle his proposals. You will further, we trust, make clear to Chancellor that this suggestion as to procedure will in no degree lessen our own efforts or those of our friends, and we have still hopes that we can work the operation out with as little final commitment to the Treasury as it has been obliged to take in previous operations. But circumstances being as they are, the only prudent thing, in our judgment, is to proceed in manner outlined. Promptness in action is essential.

MORGAN.

TWL.

EXHIBIT NO. 2682

[File copy]

APRIL 14, 1917.

$150,000,000 Canadian Pacific Railway collateral bond issue.

Hon. W. G. McADOO,
Secretary of the Treasury, Washington, D. C.

DEAR MR. McADOO: A situation has arisen with respect to the above mentioned proposed issue upon which we desire to ask your counsel.

You are already aware that the British treasury's requirements in the immediate future are such as to make it desirous of securing funds from this issue if such, of course, be feasible and altogether in accord with the ideas of the Federal Government. We have understood that you cordially acquiesce in this desire of the British treasury and that you approve the proposed operation on the ground that, in effect, it is a private corporate transaction by the Canadian Pacific Railway; furthermore, however, that you have hitherto deemed it unwise that your general approval of the plan be made known.

We are, however, confronted with this situation: We, and bankers all over the country who might become members of the syndicate to issue these bonds, have a well grounded apprehension that if we should make the issue without allowing the public to be aware that it fits in with your own plans, the syndicate would immediately be subjected to severe criticism. It is, as you can see, altogether probable that the public press being uninformed in the matter would at once declare that the step was a very unpatriotic one, as tending to interfere with the much larger operations of the Federal Treasury which are impending. A good many people would be likely, we think, to say that this was an effort to "draw a herring across the trail" and at the last moment to seize upon some little profit in an operation which was calculated to injure the much more important operations of the Federal Treasury.

We are, naturally, unwilling to subject to this criticism the many banks and banking houses whom we should ordinarily invite to co-operate in an operation of this kind. In consulting with them we find, as you yourself well know, the utmost desire to co-operate in any effort that will serve the cause of the Federal Government, directly or indirectly. Naturally, however, they do not wish to be accused of being unpatriotic.

The question, therefore, arises as to whether you would not consider it wise to allow some indication to be made, even though in a negative way that this proposed operation is not designed to conflict with the operations of the Federal Treasury. Unless we can let that fact be made known, we feel that for the reasons set forth we shall have to abandon the operation—much to the regret of the British treasury and measurable, I presume, to your own regret. We had hitherto suggested some such phrase as the following: "This operation, though taking the form of a private corporate transaction, is being [carried out] for the purpose of serving to regulate the exchanges pending the completion of the Government's plans at Washington and is designed in nowise to conflict with such plans."

It is quite immaterial, of course, as to what form of phrasing is adopted just so long as we can make the real situation known to such an extent that the several hundred banks and bankers all over the country who might take a small participation in this operation would surely not lay themselves open to criticism on the ground of interfering with your plans, when in reality, as you know, they are all most loyal and eager, as we are, if you will allow me to say so, to co-operate in any way that will best serve the ends of the Federal Treasury.

This matter is such a pressing one and must be decided now so quickly that I am asking Mr. Martin Egan, of our staff, to be the bearer of this letter, to bring it to your attention early Monday morning, so that I may call you on the 'phone as soon thereafter as possible and learn what your wishes and decision may be.

I am, my dear Mr. Secretary, with great respect,
Sincerely yours,

——— ———.

TWL/CAD.

NOTE.—Words enclosed in brackets are written with lead pencil.

EXHIBIT No. 2683

4AK2/372

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Jan. 27, 1917.

[Copy of telegram despatched 6 p. m. to Morgan, London]

35997. For E. C. Grenfell. Subscriptions this morning aggregate $230,000,000. We feel confident whole amount will be covered and that Bank of England will be relieved entirely, except insofar as it may be necessary for us to suggest some concerted action for caring for market situation more thoroughly with respect to this and all outstanding issues.

On Wednesday I conferred informally at Washington, D. C., with Secretary of Treasury, Governor, and one [other] member of Federal Reserve Board. For your information Secretary of Treasury expressed apprehension as to increasing European loans here, fearing that possibly his own financial plans for moderate bond issues might be interferred with. Of course, to us this apprehension seems utterly groundless and we so expressed ourselves. Other two members of Board seemed generally favorable to our plans, including present issue, as designed for distribution among private investors and thus relieving banks. Also seemed very favorable to suggested drawing plan by American manufacturers, see 35582, 35822.

Holden's statement at annual meeting is headlined here today as criticism of Federal Reserve Board. Outgivings like this and, in less degree, Schuster's early in the week, while perfectly natural and very likely impossible to avoid, [are] calculated to make a difficult situation here worse. Banking community here, which may itself privately criticise Federal Reserve Board action, is likely to resent such criticism from abroad. This is only human nature.

The borrower's position, even though his resources may exceed the lender's, is always delicate during the period of borrowing operation and he should try to avoid public criticism of lender's possible shortcomings. Chancellor, if we may be permitted to say so, has fully appreciated this point by refraining at the time of action and since from the slightest public evidence of resentment.

Holden's statement that Allies are entitled to credit here to an amount of six times value of shipments of gold is likely to be strongly challenged by statement of bankers here that shipments of gold are simply settlement of trade balances for goods purchased. In times past, Great Britain has extended to America enormous credits, but none of them upon a basis of large or small American shipments of gold.

Our own view is that Allies are entitled here to any amount of credit they may desire for goods purchased but without particular reference to gold situation. The investing public here is more likely gradually to adopt more liberal view if it feels that its friends in Great Britain are not criticising it for not lending money fast enough.

Our only reason for making these suggestions is to benefit international credit situation for both America and Great Britain.—T. W. LAMONT.

MORGAN.

NOTE.—Pencil notations enclosed in brackets.

EXHIBIT No. 2684

46A'

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Jan. 25, 1917.

[Copy of telegram despatched 10:45 p. m. to Harjes, Min. Finances, Paris]

30353. 18689. Have given most careful consideration. We venture to point out that you are mistaken in your premises inasmuch as in the new British loan now being put out here there are being offered both collateral and conversion features which had not heretofore been combined and which up to date have resulted in making the loan the most popular with investors which has yet been handled. In view of this we can see no reason why two attractive features should not be embodied in proposed French loan, but it would be distinctly unwise in our judgment to attempt two different kinds of operations for France at the same time.

If Government wish to borrow $50,000,000 we could attempt to work out a collateral loan for this amount, leaving open for future consideration the question of a further loan of similar size with an exchange feature but without collateral. Time would have to be given, however, for the first operation to have been cleared up and a considerable period elapse, at least 2 months, we should think, before second could be undertaken. Our advice would be to go in for a larger amount at one time making it as attractive as possible

18709. With the books still open for subscriptions on the British loan and probably no chance of closing until next week, making it thereafter necessary to leave market quiescent for a short time before bringing out new issue, it is, as you can appreciate, quite impossible at this writing to name even approximate date of issue for France, but we will urge every channel possible and shall greatly hope to be ready before the end of next month. You will appreciate that much depends upon attitude both of investors and American Federal authorities.

For your private information, Secretary of Treasury, who T. W. Lamont visited yesterday, stated informally that in view of pending necessity for American Government to issue bonds, he was beginning to feel personally considerable concern over the increasing amount of French and British loans offered. We sincerely trust that this apprehension, which in our own judgment is [not] well founded, will take no more definite shape, but we are bound to point it out to you as possibly having future bearing upon situation. You may, however, rely upon our proceeding as expeditiously as possible.

MORGAN.

NOTE.—Pencil notation enclosed in brackets.

EXHIBIT No. 2685

46–A

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Feb. 2, 1917.

[Copy of telegram despatched 9 : 45 p. m. to Min. des. Fin. pour Harjes, Paris]

30440. 30429. 30428. Until international political situation is somewhat cleared and American investment market secures some inkling of where it stands, it will be as you will appreciate quite useless to discuss any immediate progress with various pending matters.

As to the situation in general, considering the shock occasioned by Germany's note and violent break in stock market, investment markets have held up here very well. Paris municipals having sold off the worst. Looking forward to future it would seem that if Germany backs down investment matters would imemdiately go back to their former status with good prospect of continued operations. With such an outcome improbable, however, and with chance of serious trouble with Germany imminent, it would look to us as though there would be a complete cessation in our investment markets for perhaps a fortnight until people can get their bearings and become adjusted to new situation and outlook. You yourselves have been through such readjustment and know that in case of hostilities it is inevitable. In such an event Federal Treasury may float immediately bond issue of $500,000,000, possibly $1,000,000,000, either amount being quickly absorbed. After such operation it would seem to us as if we ought to have continued good investment market here with fully as much facility and very probably considerably more, for your operations because of the increasing sympathy created among our people for the cause of the Allies.

In dictating this we are as yet quite in the dark as to what action Washington is about to take, which, of course, may be announced later in the day. Such action may serve to make the foregoing suggestions entirely negligible.

MORGAN.

TWL.

EXHIBIT No. 2686

16A01–116

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Feb. 21, 1917.

[Copy of telegram despatched 9 p. m. to Morgan, London]

37870. For E. C. Grenfell. For the information of authorities. We learned through British Ambassador that the Governor of Federal Reserve Board, and the Secretary of Treasury had intimated to Sir Richard Crawford that insofar as they consistently could they would like to encourage foreign loans to aid our foreign commerce. Therefore Ambassador asked me to visit Washington, D. C., and call upon these two gentlemen. This I did on Feb. 14th. In analyzing situation with them we found they were very clear that they could not take any affirmative official action but that possibly some bridge might be built over which they could pass in reversing the attitude of the Federal Reserve Board taken on November 28th. That is that if some modification of plan then proposed could be made so that they could reverse their position without stultifying themselves they could consider doing so.

Yesterday J. P. Morgan, being in Washington, D. C., as member of Advisory Council Federal Reserve Board, discussed this subject with them. Sir S. Hardman Lever also being in Washington, D. C., was fully posted as to matters then discussed, and we have been conferring with him today in regard to this subject. We have no doubt that Governor Federal Reserve Board and Secretary of Treasury would be very glad to find some way to make the borrowing of the British and French Governments easier and we are working for some plan hoping we may be able to find a solution which will serve your interests and meet their requirements. We regret to state that we are very doubtful of any favorable outcome of this matter and would wish to warn against any encouragement on your part.

As stated this is merely sent for your information and we shall take great care that the British Government is not committed in any way without full consultation and approval on their part and have made it clear to these gentlemen that as yet we have not submitted even the suggestion to British Government.—H. P. DAVISON.

MORGAN.

HPD.

EXHIBIT No. 2687

116/16AO/16AI/21/16aa/65.

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Feb. 27th, 1917.

[Copy of telegram despatched 8 p. m. to Morgan, London]

39085. For E. C. Grenfell. Aggregate loans 1 and 2 now $206,400,000. We have bought to-day $11,500,000 exchange. Find less desire on the part of our friends to participate in demand loan than previously, due to general conditions and somewhat tightening of money on account of blockade, due to lack of shipping. We have conferred with Sir Hardman Lever, K. C. B., who agrees that shipment from Ottawa to us of an additional $50,000,000 of gold should be authorized at once. Please cable when this has been done. Lever and I to spend this evening in Washington, D. C., with British Ambassador and Governor Federal Reserve Board to discuss subject our 37870. Nothing new and really not very hopeful that anything will come of these particular negotiations. Will keep you posted. Most important gold should be shipped at once.

32386. Quite understood. Sir Hardman Lever, K. C. B. prefers we should cable when possible to do so on subjects such as foregoing.—H. P. DAVISON.

MORGAN.

HPD.

EXHIBIT NO. 2688

16AO/116

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Feb. 28, '17.

[Copy of telegram despatched 11 p. m. to Morgan, London]

39124. For E. C. Grenfell. Have sent following cable to Morgan, Harjes, and Co., Paris:

"For confidential information of authorities: I spent last evening in Washington, D. C., with Governor Federal Reserve Board, to whom made suggestion of statement which might be issued by Federal Reserve Board for the purpose of breaking present financial deadlock and improving chances for financing for Allies. I am informed by telephone today that Board have considered matter, approve in principle, are to reconvene on Friday, hoping to issue publicly statement Saturday which should be beneficial. By financial deadlock we mean that tense strain here owing to international complications has caused bankers throughout the country to remain practically in status quo, doing as little business as possible, result of which is, so to speak, financial deadlock. Owing to this situation and shipping embargo, exchange has pressed upon us heavily and we are therefore forced to do such financing as is possible to do at the first possible moment. This, we believe, may be in the form of short-term bills. After several conferences, we have ended in talking the short-term bill practically as heretofore proposed, but modifying it to the extent that the amount shall be limited and that there shall be held in Ottawa a gold reserve of 20% of the amount issued. Of course, there is no commitment on the part of the Board to this plan, but if their statement to be published is satisfactory and we believe that we could find a market for these bills, we unhesitatingly recommend their issuance. We have explained the situation to M. Bloch and to the British treasury official here. We are sending this for the information of authorities, as London is also being advised. We await instructions in regard thereto."

Sir Hardman Lever is cabling Treasury officials fully. As he has made clear, it is most important that we should be in a position to act promptly if at all.—H. P. DAVISON.

MORGAN.

EXHIBIT NO. 2689

16A01/116

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Mar. 8, 1917.

[Copy of telegram despatched 11:45 p. m. to Morgan, London]

39510. 39124. Federal Reserve Board have issued statement for publication tomorrow morning, which we regard as favorable. Will advise you more fully tomorrow.

MORGAN.

HPD.

EXHIBIT NO. 2690

[Copy of cable despatched 8 p. m. to Morgan, Grenfell & Co., London]

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, March 28, 1917.

41287. 34036. Thank you. You will be pleased to learn that French loan is over-subscribed, total subscriptions about $116,000,000.

For your [most] confidential information, J. P. Morgan conferred yesterday with Secretary of Treasury, whose attitude is in favor of granting ample credit to the Allies. We believe that in due course President Wilson is likely to advocate such a plan to Congress and we are in hopes that if adopted it might become effective on or about May 1st, thereby leading to a solution of all the exchange difficulties of the Allied Governments.

Of course, you are well aware that Congress may possibly be cool or very slow in the matter and hence we are unable to count definitely upon any action as yet. In case you discuss with Chancellor, please do not allow him to place too much early reliance upon this plan. Also, it is essential that nothing be said publicly about such possible prospects, since Government wish to avoid discussion till they can bring matter before Congress.

For your further information loans one and two aggregate above $340,000,000, our share $168,000,000. Situation is strained but is being taken care of day by day by further imports of gold as needed and various sales of securities.

We are [now] hopeful of proceeding promptly with large Canadian Pacific Railway operation and in case this is possible, think it desirable that it should take precedence over London municipal as being easier to handle and furnishing many times the amount of exchange.

MORGAN.

HPD.

EXHIBIT No. 2691

NOTE.—Pencil notations enclosed in brackets.

Source: Letter Farmers Loan & Trust Co. to J. P. Morgan & Co., 12/27/16.

U. K. #1—December 26, 1926.

Canada $62,000,000	£634, 037/9/6
	18, 100
	309, 237/13/1
	4, 600
	2, 643, 392/16/6
	106, 556/18/2
	1, 798, 250
	1, 806, 858/10/2
	302, 000
	7, 623, 033/7/5

U. K. # 2—December 27, 1916

Barry	£40, 000
Caledonian	170, 000
East London	50, 000
Glasgow & Southwestern	95, 000
Great Central	250, 000
	780, 000
	45, 000
Great Eastern	570, 000
Great Northern of Scotland	24, 000
Great Northern	340, 000
Great Western	15, 000
	350, 000
	18, 000
	140, 000
	76, 000
Highland	10, 000
Hull & Barnsley	85, 000
	200, 000
Lancashire & Yorkshire	635, 000
London, Brighton & So. Coast	156, 000
London & Chatham & Dover	190, 000
	25, 000
London & Greenwich	16, 000
London & Northwestern	580, 000
London & Southwestern	593, 000
Metropolitan	290, 000

Midland	£900,000
North British	315,000
Northeastern	315,000
North London	40,000
North Staffordshire	130,000
Southeastern	75,000
	55,000
	145,000
	7,718,000

U. K. # 2—December 27, 1916

Australia		£9,000,000
Canada	$12,404,678.36	
Do		4,500,000
Do		2,500,000
Do	33,207,351.17	
Egypt		1,749,500
Do		1,887,980
Do		1,827,360
New Zealand		5,000,000
South Africa		6,000,000
	45,612,029.53	32,464,840

Source: Guaranty Trust Company of New York. Memorandum at close of business December 27, 1916.

U. K. #3—Received February 1, 1917

Egypt	£115,800
	49,900
	208,900
	182,900
	325,000
	446,000
Canada	5,000
	70,020
	500
	131,700
	20,500
	1,800
	37,500
	500
	30,350
	46,300
	25,000
	50,000
Egypt	386,500
	189,200
	1,005,860
Canada	400
	69,870
	700
	168,300
	35,900
Egypt	3,000
	1,300
Canada, $47,000,000	£3,606,700

Source: Bankers Trust Company Resume of collateral 2/1/17.

Recapitulation U. K. 1, 2, and 3

[£=$4.75]

Dominion and protectorates as of—	
12/27/16, #1	£98,000,000
12/27/16, #2	197,000,000
2/1/17, #3	74,000,000
	369,000,000
British rails, #2	36,000,000
	405,000,000
Total par of the loans	800,000,000

EXHIBIT No. 2691-A

CITY BANK FARMERS TRUST CO. COLLATERAL AS OF DEC. 26, 1916

[Originals]

Summary as of 12/26/16

$1,113,573.80
1,113,573.80
J. entry $111,347,380
£260,561.37
260,561.37
J. entry £26,056,140
Shares 3,787.85
3,787.85
O. K.

DECEMBER 27, 1916.

Messrs. J. P. MORGAN & Co.,
Wall Street Corner Broad, New York, N. Y.

DEAR SIRS: In response to your request, we beg to enclose herewith, lists showing the securities, as of the close of business on December 26, 1916, held by us as collateral to the two-year loan made by the Government of the United Kingdom of Great Britain and Ireland.

Yours very truly,

THE FARMERS' LOAN AND TRUST CO.,
By ——— ———, *Vice President.*

WHL-317
Enclosures (16)
Deliver.

Collateral held at Farmers Loan & Trust Co. as of Dec. 26, 1916

BONDS

INTEREST PAYABLE JANUARY AND JULY

	Par value
Alabama Central Railroad, 1st 6%, due 1928	$9,000
American Dock & Improvement Company, 1st 5%, due 1921	20,000
American Telephone & Telegraph Company, collateral trust 4%, due 1929	254,000
American Thread Company, 1st 20-year 4%, due 1919	55,000
Atchison, Topeka & Santa Fe Railway-Trans-Continental Short Line, 1st 4%, due 1958	131,000
Atlanta & Charlotte Air Line, 1st series A 4½%, due 1944	135,000
Atlantic Coast Line Railroad Company, 1st general 4%, due 1948	20,000
Baltimore & Ohio Railroad Company, prior lien 3½%, due 1925	529,000

	Par value
Baltimore & Ohio Railroad Company, southwestern division, 3½%, due 1925	$252,500
Bangor & Aroostook Railroad Company, 1st 5%, due 1943	80,000
Beech Creek Railroad Company, 1st 4%, due 1936	5,000
Beech Creek Railroad Company, 2nd guaranteed 5%, due 1936	5,000
Bethlehem Steel Company, 1st 5%, due 1926	10,000
Brooklyn Rapid Transit Company, 5% notes, due 1918	987,000
Brooklyn Rapid Transit Company, 1st refunding 4%, due 2002	43,000
Burlington Gas Light Company, 1st 5%, due 1955	20,000
Bush Terminal Company, consolidated 5%, due 1955	457,000
Carolina, Clinchfield & Ohio Railway, 10-year 5%, due 1919	1,065,000
Central New England Railway Co., 1st 4%, due 1961	6,000
Central Railroad of New Jersey, general 5%, due 1987 (Regd.), payable quarterly	245,000
Chesapeake & Ohio Railway Company, gen. funding & imp. 5%, due 1929	245,000
Chesapeake & Ohio Railway, R. & A division, 1st consolidated 4%, due 1989	35,000
Chicago, Burlington & Quincy Railroad, Illinois division, 3½%, due 1949	1,000
Chicago, Burlington & Quincy Railroad Company, Illinois division, 4%, due 1949	85,000
Chicago, Indiana & Southern Railroad Co., 50-year 4%, due 1956	55,000
Chicago, Indianapolis & Louisville Railway Co., refunding 6%, due 1947	31,000
Chicago, Milwaukee & Puget Sound Railway, series A 1st 4%, due 1949	60,000
Chicago, Milwaukee & St. Paul Ry. Co., 25-year 4%, due 1934	223,000
Chicago, Milwaukee & St. Paul Railway Co., general series A 4%, due 1989	1,524,000
Chicago, Milwaukee & St. Paul Railway Co., general series C 4½%, due 1989	120,000
Chicago, Milwaukee & St. Paul Ry., Chicago Lake Superior division, 1st 5%, due 1921	16,000
Chicago, Milwaukee & St. Paul Railway, Chicago & Pacific Western division, 1st 5%, due 1921	209,000
Chicago, Milwaukee & St. Paul Railway, LaCrosse & Davenport division, 1st 5%, due 1919	31,000
Chicago, Milwaukee & St. Paul Railway, Wisconsin & Minnesota division, 1st 5%, due 1921	37,000
Chicago, Milwaukee & St. Paul Railway, Wisconsin Vly. div., 1st 6%, due 1920	16,000
Chicago Railways, purchase money 5%, due 1927	5,000
Chicago, Rock Island & Pacific Railway Co., general 4%, due 1988	162,000
Chicago & Western Indian Railroad, 50-year 4%, due 1952	637,000
Cleveland, Cincinnati, Chicago & St. Louis Ry. Co., debenture 4½s, due 1931	40,000
Cleveland, Cincinnati, Chicago & St. Louis Ry. Co., Cairo, Vincennes and Chicago Railway division, 4%, due 1939	270,000
Cleveland, Cincinnati, Chicago & St. Louis Ry. Co., Cincinnati, Wabash & Michigan division. 1st 4%, due 1991	65,000
Cleveland & Mahoning Valley, 50-year 5%, due 1938	11,000
Cleveland & Pittsburgh Railroad Co., series A general 4½%, due 1942	130,000
Consolidated Gas, Electric Light & Power Co., of Baltimore, general 4½%, due 1935	118,000
Delaware & Hudson Company 1st lien 4½%, due 1922	75,000
Denver & Rio Grande Railroad, 1st consolidated 4%, due 1936	1,316,000
Denver & Rio Grande Railroad Company, 1st consolidated 4½%, due 1936	112,000
Detroit United Railway Company, 1st consolidated 4½%, due 1932	190,000
Duluth, South Shore & Atlantic Railway Co., 1st 5%, due 1937	203,000
Eastern Pennsylvania Railway Company, 1st 5%, due 1936	30,000
East Tennessee, Virginia & Georgia R. R. Co. 1st consolidated 5%, due 1930	19,000
Edison Electric Company of New Orleans, 1st 5%, due 1929	25,000
Edison Electric Illuminating Co. of Brooklyn, 1st consolidated 4%, due 1939	1,000

	Par value
El Paso & Rock Island, 50-year 5%, due 1951	$50,000
Erie Railroad Company prior lien 4%, due 1996	331,000
Erie Railroad Company general lien 4%, due 1996	1,783,000
Evansville & Terre Haute R. R. Co. cons. 1st 6%, due 1921	69,000
Georgia, Carolina & Northern Railway 1st 5%, due 1929	8,000
Georgia Railroad & Banking Company, 4%, due 1947	25,000
Grand Rapids & Indiana Railroad, 1st extended 4½%, due 1941	8,000
Great Northern Railway, 1st & refunding series A 4½%, due 1961	5,000
Great Western Power Company, 1st 5%, due 1946	245,000
Gulf and Ship Island Railroad, 1st refunding & terminal 5%, due 1952	5,000
Hocking Valley Railway, 1st consolidated 4½%, due 1999	47,000
Houston Belt & Terminal Railway, 1st 5%, due 1937	50,000
Illinois Central Railroad, sterling 3½%, due 1950	£2,000
Illinois Central Railroad Co., 1st 3½%, due 1951	$24,000
Illinois Central Railroad Co. 1st 4%, due 1951	5,000
Illinois Central Railroad Co. Louisville division & terminal 1st 3½%, due 1953	25,000
Illinois Central Railroad Company, St. Louis division & terminal, 1st 3½%, due 1951	1,000
Illinois Central Railroad, Springfield division 1st 3½%, due 1951	5,000
Ingersoll-Rand Company, 1st 5%, due 1935	11,900
Interborough Rapid Transit Company, 1st refunding 5%, due 1966	318,000
Kanawha & Michigan Railway Co., 2nd 5%, due 1927	20,000
Kansas City Southern Railway, refunding & improvement 5%, due 1950	834,000
Kansas City Terminal Railway Co., 1st 4%, due 1960	1,599,000
Kentucky Central Railway Co., 1st 4%, due 1987	35,000
Kentucky & Indiana Terminal R. R. 1st 4½%, due 1961	£42,200
Lake Erie & Western Railroad Co. 1st 5%, due 1937	$5,000
Lake Erie & Western Railroad Co., 2nd 5%, due 1941	5,000
Lake Shore Electric Railway Co., 1st cons. 5%, due 1923	35,000
Lehigh Valley Coal Co., 1st 5%, due 1933	30,000
Lehigh Valley Railway 1st 4½%, due 1940	38,000
Long Island Railroad Co., 1st cons. 5%, due 1931	59,000
Louisville & Nashville Railroad Co., unified 50-year 4%, due 1940	163,000
Louisville & Nashville Railroad, New Orleans & Mobile division, 1st 6%, due 1930	27,000
Louisville & Nashville Southern Monon collateral joint 4%, due 1952	18,000
Macon, Dublin & Savannah R. R. Co., 1st 5%, due 1947	25,000
Milwaukee, Lake Shore & Western Railway Co., Michigan division, 1st 6%, due 1924	5,000
Minneapolis & Pacific Railway, 1st 4%, due 1936	5,000
Minneapolis, St. Paul & Sault Ste. Marie Ry. 50-year 1st 4%, due 1938	821,000
Minneapolis, St. Paul & Sault Ste. Marie 2nd 4%, due 1949	170,000
Minneapolis, Sault Ste. Marie & Atlantic Railway, 1st 4%, due 1926	102,000
Minneapolis Union Railway, 1st 6%, due 1922	25,000
Mississippi Central Railroad Co., 1st 5%, due 1949	10,000
Mississippi River Power Co., 1st 5%, due 1951	2,000
Mobile & Birmingham Railroad, prior lien 5%, due 1945	4,000
Mobile & Birmingham Railroad, 1st mtge., 4%, due 1945	11,200
Montana Central Railroad, 1st 6%, due 1937	190,000
Montana Power Company, Series A, 1st refunding 5%, due 1943	100,000
Nassau Electric Railroad, cons. 4%, due 1951	384,000
New Orleans City and Lake R. R. 5%, due 1943	10,000
New Orleans Railway & Light Co., general 4½%, due 1935	50,000
New Orleans Terminal Railroad Co., 1st series A 4%, due 1953	45,000
New York Central & Hudson River R. R. 3½%, due 1997	357,000
New York Central Lines Equipment Trust of 1910, 4½%, due 1922	12,000
New York Central Lines Equipment Trust of 1912, 4½%, due 1923	5,000
New York Central Lines Equipment Trust of 1912, 4½%, due 1924	30,000
New York Central Lines Equipment Trust of 1912, 4½%, due 1925	5,000
New York Central Lines Equipment Trust of 1912, 4½%, due 1926	7,000
New York Central Lines Equipment Trust of 1912, 4½%, due 1927	5,000
New York Central Lines Equipment Trust of 1931, 4½%, due 1926	3,000
New York, New Haven & Hartford R. R. convertible 6%, due 1948	62,000
New York, New Haven & Hartford R. R. debenture 4%, due 1955	40,000

	Par value
New York, New Haven & Hartford R. R. Co. convertible debenture, 3½%, due 1956	$2,000
New York Railways Co. 30-year real estate & refunding 4%, due 1942	32,000
New York, Susquehanna & Western Railroad Co., 1st refunding 5%, due 1937	9,000
New York, Westchester & Boston Railway, 1st gold 4½% series I, due 1946	140,000
New York & Westchester Lighting Co., 50-year debenture, 5%, due 1954	7,000
Niagara Falls Power Co., 1st mtge. 5%, due 1932	242,500
Norfolk & Western Railway, divisional 1st lien & general mtge. 4%, due 1944	105,000
Northern Pacific-Great Northern, C. B. & Q. collateral, joint 4%, due 1921, redg. payable quarterly	376,000
Northern Pacific Railway Co., prior lien 4%, due 1997	1,121,500
Northern Pacific Railway Co., series A refunding & improvement 4½%, due 2047	25,000
Northwestern Telegraph Co., 1st 4½%, due 1934	50,000
Ogdensburgh & Lake Champlain Railway, 1st 4%, due 1948	90,000
Oregon & California Railroad Co., 1st 5%, due 1927	156,000
Oregon Short Line Railroad, cons. 1st 5%, due 1946	2,500
Oregon-Washington Railroad & Navigation Co., 1st & refunding, series A 4%, due 1961	223,000
Oregon-Washington Railroad & Navigation Co., 1st & refunding, series B 4%, due 1961	£297,900
Pacific Gas & Electric Co., general & refunding series A 5%, due 1942	$182,000
Pacific Light & Power Co., 1st 5%, due 1942	61,000
Pacific Railroad of Missouri, 2nd extended 5%, due 1938	35,000
Pacific Telephone & Telegraph Co., 1st collateral sinking fund, 5%, due 1937	39,000
Pennsylvania Company, 4½%, due 1921	84,000
Pennsylvania Railroad Co., cons. 3½%, due 1945	£6,000
Pennsylvania Water & Power Co., 1st sinking fund, 5%, due 1940	$35,000
Philadelphia & Erie Railroad Co., 6%, due 1920	110,000
Reading Co. and Philadelphia & Reading Coal & Iron Co., general 4%, due 1997	45,000
Rio Grande Western Railway, 1st trust 4%, due 1939	75,000
Rutland Railroad, cons. 4½%, due 1941	50,000
St. Louis, Iron Mountain & Southern Railway, unifying & refunding 4%, due 1929	1,793,000
St. Louis, Peoria & Northwestern Railway, 1st 5%, due 1948	35,000
St. Paul City Railway Co., cons. cable 5%, due 1937	30,000
St. Paul, Minneapolis & Manitoba Ry. Co., cons. 4%, due 1933	9,000
St. Paul, Minneapolis & Manitoba Ry. Co., cons. 4½%, due 1933	81,000
St. Paul, Minneapolis & Manitoba Ry. Co., cons. 6%, due 1933	108,000
St. Paul, Minneapolis & Manitoba Ry. Co., Pacific extension, 4%, due 1940	£190,300
San Antonio & Aransas Pass Railway, 1st 4%, due 1943	$17,000
Southern Bell Telephone & Telegraph Co., 1st 5%, due 1941	25,000
Southern Pacific Co. Twenty Year 4½%, due 1929	2,000
Southern Pacific Railroad Co., 1st refunding 4%, due 1955	488,500
Southern Railway Co., 1st cons. 5%, due 1994	176,000
Southern Railway, St. Louis division, 1st, 4%, due 1951	56,000
Spokane International Railway, 1st 5%, due 1955	85,000
Swift & Co., 1st sinking fund, 5%, due 1944	11,500
Tennessee Coal and Iron Railroad Co., Birmingham, Alabama division, 1st 6%, due 1917	50,000
Terminal Railroad Association of St. Louis general & refunding sinking fund 4%, due 1953	176,000
Texas & Pacific Louisiana division branch lines 1st 5%, due 1931	100,000
Third Avenue Railway, 1st refunding 50-year 4%, due 1960	130,000
Toledo, St. Louis & Western Railroad prior lien 3½%, due 1925	68,000
Toledo, Walhonding Valley & Ohio R. R. Co., series A, 4½%, due 1934	50,000
Toledo, Walhonding Valley & Ohio R. R. Co. series B, 4½%, due 1933	4,000
Tri-City Railway & Light Co., 1st refunding 5%, due 1930	20,000

	Par value
Union Pacific Railroad Co., 20-year convertible 4%, due 1927	$219,000
Union Pacific Railroad 1st mortgage railroad & land grant 4%, due 1947	154,500
United Fruit Co. deb. sinking fund, 4½%, due 1923	17,000
United Fruit Co. deb. sinking fund, 4½%, due 1925	25,000
United States Steel Corporation, 50-year 5%, due 1951, series A	30,000
Utah Light & Power Co., prior lien 5%, due 1930	3,000
Utah Light & Power Co., cons. 4%, due 1930	7,500
Utica & Black River R. R. Co., 1st guaranteed 4%, due 1922	15,000
Virginia Railway & Power Co., 1st & refunding 5%, due 1934	69,000
Wabash R. R. Co. Des Moines division 1st 4%, due 1939	10,000
West Shore Railroad Co. guaranteed 1st 4%, due 2361	155,000
Western Electric Co., 1st 5%, due 1922	107,000
Western Union Telegraph Co., collateral trust 5%, due 1938	8,000
Wheeling & Lake Erie Railway, Wheeling division, 1st 5%, due 1928	35,000
Winston-Salem South Bound Railway, 1st 4%, due 1960	110,000
Wisconsin Central Railway Co., 1st general 4%, due 1949	114,000

INTEREST PAYABLE FEBRUARY AND AUGUST

Canadian Pacific special investment fund, 6% notes, due 1924	2,280,380
Consolidated Gas Co. of New York, convertible deb. 6%, due 1920	37,000
General Electric Co., deb., 3½%, due 1942	30,000
Laclede Gas Light Co., 1st 5%, due 1919	1,000
Mobile & Ohio Railroad Co., Montgomery division, 1st mtge. 5% due 1947	1,000
New York Central & Hudson River R. R. Co. Lake Shore collateral (assenting) 3½%, due 1998	15,000
Northern Pacific Railway Co., general lien railway & land grant, 3%, due 2047	368,500
Rochester & Pittsburgh Railroad Co., 1st 6%, due 1921	4,000
San Joaquin Light & Power Co., 1st refunding series A 6%, due 1950	1,000
Toronto, Hamilton & Buffalo Railway Co., equipment trust, series A, 4½%, due 1922	5,000
United States Steel Corporation, fifth-year 5%, due 1951, series B	5,000

INTEREST PAYABLE MARCH AND SEPTEMBER

Allegheny Valley Railway Co. general 4%, due 1942	157,000
American Telephone & Telegraph Co. convertible 4½%, due 1933	36,600
American Telephone & Telegraph Co. convertible 4%, due 1936	22,000
Atchison, Topeka & Santa Fe Ry Co., California-Arizona lines, 1st & refunding series A 4½%, due 1962	100,000
Atchison, Topeka & Santa Fe Ry Co., California-Arizona lines, 1st & refunding series B 4½%, due 1962	£56,200
Atchison, Topeka & Santa Fe Railway Co., E. Oklahoma division, 1st 25-year 4%, due 1928	$26,000
Atlantic Coast Line Railroad Co. 1st cons. 50-year 4%, due 1952	135,000
Baltimore & Ohio Railroad Co. 20-year conv. 4½%, due 1933	537,000
California Electric Generating Co., 1st 3-year series A 5%, due 1948	10,000
California Gas & Electric Corp. general mtge. collateral trust sinking fund 30-year 5%, due 1933	6,000
Chesapeake & Ohio Railway, Warm Springs Valley branch, 1st 5%, due 1941	8,000
Chesapeake & Ohio Railway Co., genl. 4½%, due 1992	205,000
Chicago, Burlington & Quincy Railroad Co., general 4%, due 1958	75,000
Chicago Great Western R. R. Co. 1st 4%, due 1959	50,000
Chicago & Western Indiana R. R. Co. genl. 6%, due 1932	2,000
City of New York, revenue 6%, due Sept. 1, 1917	5,000
City of New York, corporate stock, 4¼%, due March 1, 1960	15,000
City of New York, corporate stock, 4½%, due Sept. 1, 1960	105,000
City of New York, corporate stock, 4½%, due March 1, 1963	36,000
City of New York, corporate stock, 4½%, due March 1, 1964	25,000
Columbus & Ninth Ave. R. R. 1st 5%, due 1933	10,000
Dayton Lighting Co. 1st & refdg. 5%, due 1937	50,000
Des Plaines Valley Ry. Co., 1st 4½%, due 1947	50,000

	Par value
Eastern Power & Lt. Corp. convertible 5%, due 1918	$8,000
Erie Ry. Co. cons. 7%, due 1920	10,000
Federal Light & Traction Co. 1st lien sinking fund 5%, due 1942	55,000
General Electric Co. deb. 5%, due 1952	128,000
Lackawanna Steel Co. 1st conv. series A 5%, due 1950	27,000
Lake Shore & Michigan Southern Ry. Co. 25-year 4%, due 1928	67,000
Long Island R. R. Co. refdg. 4%, due 1949	302,000
Louisville & Jeffersonville Bridge Co. 4%, due 1945	165,000
Michigan Central R. R. Co. Grand River Valley 1st mtge. 4%, due 1959	200,000
Mobile & Ohio R. R. Co. general 4%, due 1938	500
Mohawk & Malone Ry. 1st 4%, due 1991	5,000
New York, Lake Erie & Western R. R. Co., 1st cons. 7%, due 1920	98,500
New York, Ontario & Western Ry. Co. refdg. 4%, due 1992	116,000
New York & Rockaway Beach Ry. 1st 40-year 5%, due 1927	10,000
Northwestern Elevated R. R. Co. 1st 5%, due 1941	1,091,000
Pacific Light & Power Corp. 1st & refdg. sinking fund, series A 5%, due 1951	441,000
Peoples Gas Light & Coke Co. of Chicago refdg. 5%, due 1947	100,000
Philadelphia Co. 1st mtge. & collateral trust 5%, due 1949	20,000
Seaboard Air Line Ry. Co. Atlanta & Birmingham division, 1st 4%, due 1933	1,000
Seattle Electric Co. Seattle-Everett 1st 5%, due 1939	50,000
Southern Pacific Co. conv. 4%, due 1929	1,404,000
Southern Ry. Co. East Tennessee reorganization 5%, due 1938	140,000
Union Pacific R. R. Co. 1st lien & refdg. 4%, due 2008	266,500
Union Pacific R. R. Co. 1st lien & refdg. 4%, due 2008 (sterling)	£316,700
United New Jersey R R. & Canal Co. genl. 4%, due 1944	$15,000
United States Steel Cop. 50-year 5%, due 1951, series C	5,000
Wabash R. R. Co. 1st lien sinking fund equipment 5%, due 1921	46,000
Wabash R R. Co. Toledo & Chicago division 1st 4%, due 1941	5,000
Washington Central Ry. Co. 1st 4%, due 1948	7,000
Wheeling & Lake Erie R. R. Co. 1st cons. 4%, due 1949	5,000

INTEREST PAYABLE APRIL AND OCTOBER

Colorado & Southern Ry. Co. equipment trust, series A, 5%, due 1917	2,000
Erie R. R. Co. series A, 4%, due 1953	30,000
Erie R. R. Co. convertible series B, 4%, due 1953	5,000
Fort Worth & Denver City equipment trust series B, 5%, due 1917	1,000
Kings County Electric Light & Power Co. purchase money 6%, due 1997	3,000
P. Lorillard Co. 7%, due 1944	1,000
Manhattan Ry. Co. cons. 4%, due 1990, unstamped	3,000
Mortgage Bond Co. of New York, series 2, 4%, due 1966	10,000
New York Central & Hudson River R. R. Boston & Albany equipment trust of 1912, 4½%, due 1918	3,000
New York Central & Hudson River R. R. Co., B. & A. equipment trust of 1912, 4½%, due 1919	1,000
New York & Erie R. R. Co. 5%, due 1920	6,000
New York, New Haven & Hartford R. R. Co., deb. 3½%, due 1954	19,000
Niagara Falls Power Co. refdg. & genl. 6%, due 1932	3,000
St. Louis Bridge Co. 1st 7%, due 1929	500
Toledo & Ohio Central Ry. Co. western lines 5%, due 1935	40,000
Western Maryland R. R. Co. 1st 4%, due 1952	5,000
Wheeling & Lake Erie Ry. Co. 1st 5%, due 1926	3,000

Collateral held at Farmers Loan & Trust Co. as of Dec. 26, 1916, under two-year loan—United Kingdom of Great Britain & Ireland

STOCKS

ISSUE	*No. shares*
American Agricultural Chemical Company, preferred stock	550
American Beet Sugar Company, preferred stock	110
American Car & Foundry Company, preferred stock	1,800

	No. shares
American Cotton Oil Company, preferred stock	700
American Express Company, capital stock	175
American Locomotive Company, preferred stock	500
American Smelters Securities Co., preferred B	11,279
American Smelting & Refining Company, preferred stock	3,739
American Telephone & Telegraph Company, capital stock	3,228
American Tobacco Company, preferred stock	1,133
American Woolen Company, preferred stock	720
Atchison, Topeka & Santa Fe Railway Co., preferred stock	2,077
Atchison, Topeka & Santa Fe Railway Co., common stock	44,709
Atlantic Coast Line Railroad Company, common stock	3,920
Baltimore & Ohio Railroad Company, preferred stock	10,374
Baltimore & Ohio Railroad Company, common stock	19,946¼
Brown Shoe Company, preferred stock	450
Canadian Pacific Railway Company, common stock	107,718
Eastman Kodak Company, common stock	530
Hocking Valley Railway Co., common stock	6
Pittsburgh Steel Company, preferred stock	100
Pullman Company, capital stock	816
Reading Company, 2nd preferred stock	320
Reading Company, common stock	370
Sears Roebuck Company, preferred stock	775
Southern Pacific Company, capital stock	38,205
Southern Railway Company, preferred stock	80
Studebaker Corporation, preferred stock	730
Twin City Rapid Transit Company, preferred stock	700
Twin City Rapid Transit Company, common stock	50
Union Pacific Railroad Company, preferred stock	10,133
Union Pacific Railroad Company, common stock	73,840
United Cigar Manufacturing Co., preferred stock	100
United Fruit Company, capital stock	181
United New Jersey Railroad & Canal Company, capital stock	64
United States Smelting, Refining & Mining Co., preferred stock	650
United States Steel Corporation, preferred stock	31,880
United States Steel Corporation, common stock	1,000
Virginia-Carolina Chemical Co., preferred stock	1,971
Wells-Fargo & Co., capital stock	84
Western Union Telegraph Co., capital stock	3,072

Collateral held at Farmers Loan & Trust Co. as of Dec. 26, 1916

SECURITIES HELD UNDER GROUP #2

	Par value
Dominion of Canada 3% inscribed stocks	£634,037- 9-6
Dominion of Canada 3% bonds	18,100
Dominion of Canada 3½% 1909 to 1934 inscribed stock	309,237-13-1
Dominion of Canada 3½% loan of 1884	4,600
Dominion of Canada 3½% loan of 1930 to 1950 registered stock	2,643,392-16-6
Dominion of Canada C. P. R. 3½% land-grant stock, due 1938	106,556-18-2
Canadian Pacific Railway Co. land grant 3½% bonds	214,900
Dominion of Canada 3¾% loan	1,798,250
Dominion of Canada 4% 1940 to 1960 registered stock	1,806,858-10-2
Dominion of Canada 4½% bonds	302,000
Canadian Northern Alberta Railway Co., 1st mortgage 3½% debenture guaranteed stock	25,100
Canadian Northern Ontario Railway Co., 1st mortgage 3½% debenture guaranteed stock	695,105
Canadian Northern Railway Co., 1st mortgage 3% debenture guaranteed stock	10,000
Canadian Northern Railway Company, guaranteed debenture 1st mortgage 3½% stock	26,500
Canadian Northern Railway Co. 4% guaranteed debenture stock	386,672

	Par value
Grand Trunk Pacific Railway Co., 1st mortgage guaranteed 3% sterling bonds, due 1962	£2,189,400
Dominion of Canada 4½% bonds of 1916, redeemable 1925–45	62,000,000

SECURITIES HELD UNDER GROUP #3

Argentine Government external sterling 3½'s of 1889	£250,460
Argentine Government 4% loan of 1897	441,500
Argentine Government Railway guaranteed rescission 4% bonds of 1897–1899	340,200
Argentine Government 4% bonds of 1898, law 3655	212,850
Argentine Government 4% bonds of 1899	254,380
Argentine Government loan of 1900, 4% bonds, law 3378, 3783, and 3885	544,080
Argentine Government loan of 1908, 4% bonds	273,500
Argentine Government 4½% loan of 1888, law of August 1888	69,200
Argentine Government 4½% loan of 1888, series C, law of August 1887	16,100
Argentine Government 4½'s of 1888	112,280
Argentine Government 4½% loan of 1888	34,320
Argentine Government sterling conversion 4½% bonds of 1888	137,360
Argentine Government 5% loan of 1884	94,720
Argentine Government 5% loan of 1886	625,180
Argentine Government Treasury conversion 5% bonds of 1887	70,000
Argentine Government Northern Central Railway extension 5% bonds of 1887	509,600
Argentine Government Railway loan of 1890, 5% bonds	179,880
Argentine Government Buenos Aires water supply and drainage works 5% bonds of 1892	1,045,380
Argentine Government, port of Buenos Aires debenture 5% bonds of 1892	233,000
Argentine Government, port of Buenos Aires 5% sterling loan of 1912	156,000
Argentine Government, port of the capital, Buenos Aires, 5% bonds	5,000
Argentine Government, port of the capitol, Buenos Aires, 5% bonds	95,100
Argentine Government, port of the capitol, Buenos Aires, 5% bonds of 1908, law 5944	20,000
Argentine Government 5% internal loan of 1907	679,000
Argentine Republic, internal 5% of 1909, due 1945	384,300
Argentine Republic internal 5% loan of 1909, due 1945	162,500
Argentine Republic internal 5% loan of 1909, due 1945	458,480
Argentine Government internal loan of 1910, 5% bonds	331,740
Argentine Government 6%, due 1920	25,000
Argentine Government 6%, treasury 1920	23,400
Chilian Government 4½% loan of 1885	23,800
Chilian Government 4½% loan of 1886	574,000
Chilian Government 4½% loan of 1887	71,800
Chilian Government 4½% loan of 1889	58,260
Chilian Government 4½% loan of 1893	38,400
Chilian Government 4½% bonds of 1895	335,900
Chilian Government, Coquimbo Railway Co., 4½% bonds of 1899	71,820
Chilian Government, loan of 1906, 4½% bonds	185,240
Chilian Government 5% loan of 1892	212,600
Chilian Government 5% loan of 1896, due 1946	632,500
Chilian Government 5% loan of 1905	165,700
Chilian Government 5% bonds of 1909	672,400
Chilian Government 5% bonds of 1910	494,160
Chilian Government 5% bonds, loan of 1911, first series	503,120
Chilian Government 5% loan of 1911, second series, due 1949	1,336,260
Chilian Government 5% annuities, series A	55,820

BONDS

INTEREST PAYABLE MAY AND NOVEMBER

	Par value
Alabama Midland Ry. Co. 1st reduced 5%, due 1928	$6,000
Atchison, Topeka & Sante Fe Railway, adj. 4%, due 1995, stamped	222,000
Atchison, Topeka & Santa Fe Ry. adj. 4%, due 1995. unstamped	373,500
Atlantic Coast Line R. R. Co., Louisville & Nashville collateral 4%, due 1952	200,000
Baltimore & Ohio R. R., Pittsburgh, Lake Erie & W. Virginia system ref. 4%, due 1941	521,000
Bethlehem Steel Co. 1st lien refdg., series A, 5%, due 1942	10,000
Buffalo, Rochester & Pittsburgh Ry. equipment 4½%, series A, due 1919	12,000
Buffalo, Rochester & Pittsburgh equipment, series B, 4½%, due 1920	5,000
Buffalo, Rochester & Pittsburgh Ry. Co., cons. 4½%, due 1957	25,000
California Gas & Electric Corp. unifying & refdg., 5%, due 1937	112,000
Carolina, Clinchfield & Ohio Ry. Co., Elkhorn extension 1st 5% notes, due 1017	510,000
Central of Georgia Ry. cons. 5%, due 1945	130,000
Central R. R. & Banking Co. of Georgia, collateral trust 5%, due 1937	89,000
Chesapeake & Ohio Ry. Co. 1st cons. 5%, due 1939	153,000
Chicago, Burlington & Quincy R. R.-Nebraska extension sinking fund, due 1927	850,000
Chicago & Erie R. R. Co. 1st 5%, due 1982	25,000
Chicago & Northwestern Ry. Co. deb. sinking fund 5%, due 1933	34,000
Chicago, North Western Ry. Co. general 3½%, due 1987	13,000
Chicago, North Western Ry. Co. genl. 4%, due 1987	10,000
Chicago, Saint Paul & Minneapolis Ry. Co., 1st 6%, due 1918	6,500
Choctaw, Oklahoma & Gulf R. R. Co., cons. 5%, due 1952	50,000
City of New York, cons., Stock Park 3%, due Nov. 1, 1920	5,000
City of New York, corp. stock 4%, due May 1, 1957	30,000
City of New York, corp. stock 4½%, due May 1957	15,000
City of New York, corp. stock 4½%, due November 1, 1957	10,000
City of New York, corp. stock 4%, due November 1, 1958	1,000
City of New York, corp. stock 4%, due May 1, 1959	2,000
Cleveland, Cincinnati, Chicago & St. Louis Ry., St. Louis div. 1st coll. tr. 4's, 1990	56,000
Cleveland & Marietta Ry. 1st 4½%, due 1935	5,000
Colorado & Southern Ry. Co. refdg. & extension 4½%, due 1935	577,000
Corn Products Refining Co. sinking fund, 5%, due 1931	45,000
Delaware & Hudson Co. 1st refdg. 4%, due 1943	3,000
Detroit Terminal & Tunnel Co. 1st 50-year, 4½%, due 1961	20,000
Duluth St. Ry. Co. 1st 5%, due 1930	246,000
East Tennessee, Virginia & Georgia Ry. cons. 5%, due 1956	23,000
Elgin, Joliet & Eastern Ry. 1st 5%, due 1941	131,000
Galveston Electric Co. 1st 5%, due 1940	50,000
Galveston, Harrisburg & San Antonio Ry. Co. of Texas-Mexico & Pacific, ext. 5's, due 1931	7,000
Gila Valley Globe & Northern Ry. Co. 1st 5%, due 1924	6,000
Illinois Central R. R. Co. coll. 4%, due 1953	1,247,000
Illinois Central R. R. Co. refdg. 4%, due 1955	273,000
Indiana Natural Gas & Oil Co. refdg 5%, due 1936	110,000
Indiana Steel Co. 1st 5%, due 1952	295,000
International Gt. Northern, 1st 6%, due 1919	81,500
Lake Shore & Michigan Southern Ry. 4%, due 1931	108,000
Louisville & Nashville R. R. 1st 5%, due 1931	155,000
Louisville & Nashville R. R. Co. 1st 5%, due 1937	3,000
Chilian Government 5% annuities, series B	107,460
Chilian Government 5% annuities, series C	70,760
Chilian Northern Railway Co., Ltd., 1st mortgage, 5% deb	232,320
Louisville & Nashville R. R., A. K. & C. Division, 4% due 1955	286,000
Michigan Central R. R. 1st 3½%, due 1952	5,000

	Par value
Minneapolis & St. Louis R. R. Co. 1st cons. 5%, due 1934	$20,000
Minneapolis, St. Paul & Ste. Marie Ry. Co. & Central Terminal Ry. Co., 1st mtge., Chicago Terminal sinking fund, 4%, due 1941	25,000
Missouri Pacific Railway Co., 1st cons. 5%, due 1920	7,000
National Tube Co. 1st 5%, due 1952	10,000
New England Navigation Co. 3-year 6-percent notes, due 1917	50,000
New York Central & Hudson River R. R. Co. deb. 4%, due 1934	484,000
New York Central Lines equipment trust of 1907, 5%, due 1918	6,000
New York Central R. R. Co. conv. deb. 6%, due 1935	112,800
New York, Chicago & St. Louis R. R. Co. 4%, due 1931	418,000
New York, New Haven & Hartford R. R. Co. deb. 4%, due 1956	296,000
New York State Rys. Co. 1st cons., series A, 4½%, due 1962	50,000
New York, Susquehanna & Western R. R. Co. terminal 1st mtge. 5%, due 1943	12,000
New York Telephone Co. 1st general sinking fund 4½%, due 1939	180,000
New York Telephone Co. 1st & genl. 4½%, due 1939 (sterling)	£140,700
Norfolk Terminal Ry. Co. 1st 50-year 4%, due 1961	$50,000
Norfolk & Western R. R. Co. general 6%, due 1931	72,000
Pennsylvania Co. 40-year guaranteed trust, series E, 4%, due 1952	100,000
Pennsylvania R. R. Co. consolidated 4%, due 1943	41,000
Pennsylvania R. R. cons. 4%, due 1948	100,000
Pennsylvania R. R. Co. cons. 4%, due 1948	£206,600
Philadelphia, Baltimore & Washington R. R. Co. 1st 4%, due 1943	$2,000
Philadelphia Co. conv. deb. 5%, due 1922	931,000
Pittsburgh, Cincinnati, Chicago & St. Louis Ry. Co., cons. 4½%, due 1942, series C	5,000
Pittsburgh, Cincinnati, Chicago & St. Louis Ry. con. 4%, due 1945, series D	5,000
Pocahontas Collieries Co. sinking fund 5%, due 1937	79,500
Portland Ry. Co. sinking fund 1st refdg. 5%, due 1930	136,000
Public Service Corp. of N. J. 3% perpetual, interest-bearing certificates	100,000
St. Louis, Iron Mountain & Southern Ry. river and gulf div. 1st 4%, due 1933	50,000
Saint Louis Southwestern Ry. Co. 1st 4%, due 1989	165,000
Salt Lake City Union Depot & R. R. Co. 1st 5%, due 1938	150,000
Scioto Valley & New England R. R. Co. 1st 4%, due 1989	15,000
South Carolina & Georgia R. R. Co. 1st 5s, 1919	5,000
United Fruit Co. 4-year 5% notes, due 1918	50,000
United States Steel Corporation, 10-60 year sinking fund 5%, due 1963	1,416,000
Vandalia R. R. Co. cons., series B, 4%, due 1957	103,000
Virginia Midland Ry. Co. general 5%, due 1936	5,000
Virginia Ry. 1st, series A, 5%, due 1962	340,000
Wabash R. R. Co. 1st 50-year 5%, due 1939	5,000
Western Union Telegraph Co. funding and real estate 4½%, due 1950	46,000
Wheeling Electric Co. 1st 5%, due 1941	5,000
Wichita Union Terminal Railway Co. 1st 4½%, due 1941	75,000
Wisconsin Central Ry. Co., Superior & Duluth Div. & terminal 1st 4%, due 1936	163,000

INTEREST PAYABLE JUNE AND DECEMBER

Atchison Topeka & Santa Fe Ry. Co. conv. 4%, due 1953	91,000
Carolina, Clinchfield & Ohio Ry. Co. 1st 5%, due 1938	80,000
Chicago, St. Louis & New Orleans R. R. Co., Memphis Div., 1st 4%, due 1951	3,000
Illinois Central R. R. Co. & Chicago, St. Louis & New Orleans R. R. joint 1st ref., series A, 5%, due 1963	500
New York, Ontario & Western Ry. Co., general 4%, due 1955	2,000
St. Louis Terminal, Cupples Station & Property Co. 1st 4½%, due 1917	3,000
Toledo & Ohio Central Ry. Co. general 5%, due 1935	26,000
Toronto, Hamilton & Buffalo Ry. Co. 1st 4%, due 1946	74,000
Washington Ry. & Electric Co. cons. 4%, due 1951	16,000

EXHIBIT No. 2691-B

GUARANTY TRUST CO. COLLATERAL AS OF DECEMBER 27, 1916

In re United Kingdom of Great Britain and Ireland 3- and 5-year 5½% secured loan notes—Collateral held by Guaranty Trust Company of New York, as pledged under above agreement at close of business December 27th, 1916

Description	Par	Status as 11/1/19 [1]
Adirondack Electric Power Corporation 1st 5's, 1962	$1,000	R.
Alabama Great Southern R. R. Company 1st mtge. extension gold 5's, 1927	56,000	R.
Ditto 1st cons. mtge. 5's, series A, 1943	30,000	R.
Ditto Gen'l mtge. sterling 5's, 1927	£288,400	191,100.
Alabama Midland Ry. Co. 1st mtge. gold 5's, 1928	16,000	R.
Albany Ry. Co. gen'l 5's, 1947	1,000	R.
Allegheny Valley Ry. Co. gen'l mtge. gold 4's, 1942	176,000	55,000.
American Agricultural Chemical Co. 1st conv. 5's, 1928	11,000	9,000.
American Cities Co. 8-yr. 5's and 6's coll. trust, 1919	6,000	R.
American Dock & Improvement Co. 1st 5's, 1921	4,000	R.
American Power & Light Co. 10-yr. 6's, 1921	133,900	78,400.
American Smelters Securities Co. 6% S/F, due 1926	4,000	R.
American Telephone & Telegraph Co. coll. trust 4's, 1929	288,000	110,000.
Ditto Conv. 4's, 1936	5,000	R.
Ditto Conv. 4½'s, 1933	1,500	R.
American Thread Co. 1st 4's of 1919	127,000	R.
Ditto Registered	2,500	R.
Argentine Gov't guaranteed recession 4's of 1896, due 1952	£106,200	100,500.
Ditto 4% loan of 1910, due 1967	£97,000	125,800.
Ditto 5% irrigation bd. 1st series, 1940	£42,400	✓
Ditto 6% treasury bds., 1920	£1,486,400	458,200.
Ditto internal 5's, due 1945	£31,920	15,220.
Armour & Co. real estate 1st 4½'s, 1939	228,000	100,000.
Atchison, Topeka & Santa Fe Ry. Co. adjustment mtge. gold 4's, 1995, stamped	252,000	132,500.
Ditto unstamped	298,500	203,500.
Ditto Conv. gold 4's, 1955	255,000	45,000.
Ditto Conv. gold 4's, 1960	62,000	34,000.
Ditto Conv. gold 5's, 1917	105,000	R.
Ditto eastern Oklahoma mtge. gold 4's, 1928	2,000	R.
Ditto ditto registered	25,000	✓
Ditto Transcontinental Short Line 4's, 1958	6,000	R.
Ditto California Arizona Lines 1st & ref. mtge. 4½'s, 1962, sterling, series B	£56,400	£27,500.
Ditto gen'l mtge. gold 4's, 1995	219,000	115,500.
Ditto ditto registered	33,000	8,000.
Atlantic City Electric Co. 1st & ref. S/F 5's, 1938	21,000	R.
Atlantic Coast Line R. R. Co., Louisville & Nashville coll. trust gold 4's, 1952	34,000	R.
Ditto gen'l unified mtge. 4½'s, 1964	50,000	✓
Atlantic & Danville Ry. Co. 1st mtge. 4's, 1948	53,000	R.
Ditto 2nd mtge. 4's, 1948	670,000	R.
Auburn & Syracuse Electric R. R. Co. 1st & ref. 5's, 1942	1,000	R.
Commonwealth of Australia 4½%, due 1925-1945	£9,000,000	✓
Baldwin Locomotive Works 1st S/F 5's, 1940	2,000	R.
Baltimore & Ohio R. R. Co. prior lien gold 3½'s, due 1925	163,500	73,000.
Ditto registered	54,500	R.
Ditto Southwestern div. 1st mtge. gold 3½'s, 1925	200,000	100,000.
Ditto registered	17,000	✓
Ditto conv. 4½'s, 1933	22,000	R.
Ditto Pittsburgh, Lake Erie & West Virginia ref. 4's, due 1941 [see 1919 [2]]	122,000	75,000.
Ditto 1st mtge. 50-yr. gold 4's, due 1948	347,500	169,000.
Ditto 1st mtge. 50-yr. gold 4's, due 1948, registered	29,500	✓
Barry Ry. Co. cons. deb. 3% stk	£40,000	✓
Beech Creek Coal & Coke Co. 1st S/F 5's, 1944	5,000	✓
Beech Creek R. R. Co. 1st mtge. gold bd. 4%, due 1936	22,000	15,000.
Belvidere Delaware R. R. cons. mtge. S/F 3½'s gold bds., due 1943	12,000	R.
Bethlehem Steel Co. 1st lien & ref. 5's, 1942, series A	8,000	5,000.
Birmingham Terminal Co. 1st mtge. 4% gold bd., due 1957	97,000	R.
Broadway & Seventh Avenue R. R. Co. 1st cons. 5's, 1943	55,000	✓
Brooklyn Rapid Transit Co. sec. 5's notes, 1918	15,000	R.
Ditto 5's, 1945	100,000	R.
Ditto 1st & ref. 4's, due 2002	2,000	R.
Brooklyn Union Elevated Co. 1st 5's, 1950	2,000	R.
Brooklyn Union Gas Co. 1st cons. 5's, 1945	6,000	R.
Buffalo & Susquehanna Iron Co. deb. 5's, 1926, registered	10,000	✓
Buffalo & Susquehanna R. R. Corp. 1st mtge. 4's, 1963	42,500	R.
Buffalo, Rochester & Pittsburgh Ry. Co. gen'l mtge. 5's, due 1937, registered	4,000	✓
Ditto cons. 4½'s, due 1957, registered	1,000	✓

[1] Pencil notations: Check mark indicates that the amount of collateral as shown 12/27/16 was still underlying the loan; the letter "R" denotes that the indicated collateral had been entirely removed; numerals indicate the amount of collateral remaining.

[2] Words or figures enclosed in brackets are pencil notations.

In re United Kingdom of Great Britain and Ireland 3- and 5-year 5½% secured loan notes—Collateral held by Guaranty Trust Company of New York, as pledged under above agreement at close of business December 27th, 1916—Con.

Description	Par	Status as 11/1/19
Burlington, Cedar Rapids & Northern Ry. Co. cons. 1st mtge. gold bds. 5%, due 1934	$5, 000	R.
Bush Terminal Co. cons. 5's, 1955	66, 000	R.
Butte Electric & Power Co. 1st 5's, 1951	2, 000	R.
Caledonian Ry. Co. deb. 4% stk	£170, 000	✓
California Electric Generating Co. 1st 5's, 1948, series A	27, 000	R.
California Gas & Electric Corp. unifying & ref. S/F 5's, 1937	12, 000	R.
Dominion of Canada 3½% sterling bds. or stk., 1909–34	£500, 000	R.
Ditto 3½% bds., 1925–28	12, 404, 678. 36	✓
Ditto 3½% registered stk., 1930–50	£4, 500, 000	✓
Ditto 4's stk , 1940–60	£2, 500, 000	✓
Ditto 4½% bds., 1925–45	33, 207, 351. 17	✓
Ditto 3% sterling bds. or stk., due 1938	£800, 000	R.
Ditto Canadian Pacific Ry. bds. or stk., 1938 3½%, land grant	£200, 000	R.
Canadian Northern Ry. Co. 4's, 1934, deb. stk. guaranteed by the Canadian Gov't	£850, 000	R.
Ditto 3½%, 1958 ditto	£90, 000	R.
Ditto 1st mtge. 3's, 1953, deb. stk. ditto	£450, 000	R.
Canadian Northern Alberta Ry. Co. 3½% deb. stk., 1960, guaranteed by the Canadian Gov't	£150, 000	R.
Canadian Northern Ontario Ry. Co. 3½% stk., 1961, guaranteed by the Canadian Gov't	£1, 460, 000	R.
Canadian Pacific Ry. 4% nonaccumulative pfd. stk	£2, 569, 806	R.
Ditto 6% notes ctf., 1924	23, 580	R.
Ditto Registered	81, 660	101,880.
Ditto 4% perpetual cons. deb. stk	£5, 589, 461	✓
Carolina, Clinchfield & Ohio Ry. Co. 10-yr. 5% gold notes, due July 1st, 1919	41, 000	R.
Ditto 1st mtge. 5's gold bds., due 1938	9, 000	R.
Carthage & Adirondack Ry. Co. 1st mtge. 4% gold bond, due 1981	81, 000	50, 000.
Central Illinois Public Service Co. 1st & ref. 5's, 1952	55, 000	5,000.
Central of Georgia Ry. Co. cons. mtge. 5% gold bonds, due 1945	33, 000	R.
Central Leather Co. 1st lien 5's of 1925	10, 000	3,000.
Ditto registered	1, 500	✓
Central Pacific Ry. Co. 30-yr. 3½% S/F gold bonds, due 1929	47, 500	7,000.
Ditto 1st ref. mtge. 4% gold bonds, due 1949	23, 500	13,000.
Ditto Through Short Line 1st mtge. 4% gold bonds, due 1954	140, 000	35,000.
Central R. R. & Banking Co. of Georgia 50-yr. coll. trust 5's, due 1937	19, 000	R.
Central R. R. of New Jersey gen'l mortgage 5's gold bonds, due 1987	89, 000	53,000.
Ditto registered	10, 000	✓
Central Vermont Ry. Co. 1st mtge. 4's gold bonds, 1920	84, 500	R.
Chesapeake & Ohio Ry. Co. conv. 20-yr. 4½'s, due 1930	3, 149, 000	2,654,000.
Ditto 1st cons. mtge. 5% gold bonds, due 1939	38, 000	25,000.
Ditto registered	10, 000	✓
Ditto Craig Valley branch 1st mtge. 5% gold bonds, due 1940	50, 000	R.
Ditto Gen'l mtge. 4½'s gold bonds, due 1992	94, 000	74, 000.
Ditto registered	5, 000	✓
Ditto Richmond & Allegheny div. 1st cons. 4's, 1989	4, 000	R.
Chicago, Burlington & Quincy R. R. Co., Iowa div. S/F 4% G/B, due 1919	12, 000	R.
Ditto Nebraska extension mtge. S/F 4's, due 1927	534, 000	12,000.
Ditto registered	5, 000	R.
Ditto Illinois div. 3½% G/B, due 1949	2, 000	R.
Ditto ditto 4% G/B, due 1949	50, 000	✓
Ditto general mtge. 4's G/B, due 1958	10, 000	R.
Ditto Iowa div. S/F 5's G/B, due 1919	1, 000	R.
Chicago City Ry. Co. 1st 5's 1927	1, 000	R.
Chicago Gas Light & Coke Co. 1st 5's, 1937	18, 000	R.
Chicago Great Western R. R. Co. 1st mtge. 4% G/B, due 1959	582, 000	R.
Ditto registered	1, 000	✓
Chicago, Hammond & Western Ry. Co. 1st mtge. 6's, due 1927	10, 000	R.
Chicago, Indiana & Southern R. R. Co. 1st mtge. 4% G/B, due 1956	5, 000	R.
Chicago, Lake Shore & Eastern Ry. 1st mtge. 4½% G/B, due 1969	31, 000	R.
Chicago, Milwaukee & St. Paul Ry. Co. Dubuque div. 1st mtge. S/F 6's 1920	6, 000	R.
Ditto Wisconsin Valley div. 1st mtge. S/F 6's, 1920	16, 000	R.
Ditto Chicago & Lake Superior 1st mtge. 5% G/B, due 1921	2, 000	R.
Ditto Chicago & Pacific. Western div. 1st mtge. 5's, due 1921	19, 000	R.
Ditto Wisconsin & Minnesota div. 1st mrge. 5's due 1921	11, 000	R.
Ditto conv. 4½'s G/B, due 1932	217, 000	✓
Ditto 4% gold deb. 4's, due 1934	40, 000	12,000.
Ditto gen'l mtge. 4% G/B, due 1989, series A	92, 000	88, 000.
Ditto ditto registered	10, 000	✓
Ditto gen'l mtge. 3½'s series B, due 1989, registered	12, 000	✓
Ditto gen'l mtge. 3½'s series B, due 1989	2, 000	R.
Ditto gen'l mtge. 4½'s series C, due 1989	10, 000	R.
Ditto gen'l & ref. mtge. 4½'s series A, due 2014	4, 000	R.
Ditto gen'l & ref. mtge. series B 5's, due 2014	3, 600	✓

In re United Kingdom of Great Britain and Ireland 3- and 5-year 5½% secured loan notes—Collateral held by Guaranty Trust Company of New York, as pledged under above agreement at close of business December 27th, 1916—Con.

Description	Par	Status as 11/1/19
Chicago, Milwaukee & Puget Sound Ry. Co. 1st mtge. 4% G/B, due 1949	$21,000	R.
Chicago Railways Co. 1st 5's 1927	3,000	R.
Chicago Rock Island & Pacific Ry. Co. equip. tr. 4½'s, series C, due 1917	5,000	R.
Ditto 1st mtge. 6% G/B, due 1917, reg't	5,000	R.
Ditto Equp. tr. 4½'s series C, due 1918	50,000	R.
Ditto Equp. tr. series C 4½'s, due 1919	50,000	R.
Ditto 1st & ref. mtge. 4% G/B, due 1934	310,000	R.
Ditto 1st & ref. mtge. 4's, due 1934 (certificates of deposit)	155,000	160,000.
Ditto gen'l mtge. 4% G/B, due 1988, registered	27,000	√
Chicago, St. Louis & New Orleans R. R. Co. cons. mtge. 3½'s G/B, due 1951	3,000	R.
Ditto 5% G/B, due 1951	170,000	135,000.
Ditto registered	13,000	√
Ditto Memphis div. 1st mtge. 4% G/B, due 1951	63,000	33,000.
Chicago, St. Louis & Pittsburgh R. R. Co. 1st cons. mtge. 5's, due 1932	1,000	R.
Chicago, St. Paul, Minneapolis & Omaha cons. 6's, due 1930	12,000	√
Chicago Telephone Co. 1st 5's of 1923	10,000	R.
Chicago & Alton R. R. Co. 1st lien 3½'s bds., due 1950	75,000	R.
Chicago & Erie R. R. Co. 1st mtge. 5's G/B, due 1982	33,000	27,000.
Chicago & Northwestern Ry. Co. gen'l mtge. 4% G/B, due 1987	9,000	R.
Chicago & Northwestern Ry. Co. deb. 5's, due 1921	7,000	R.
Ditto S/F deb. 5's, due 1933	52,000	3,000.
Ditto gen's mtge. 3½'s G/B, due 1987	19,000	R.
Ditto 5% S/F deb. 5's, due 1933, registered	34,000	√.
Chicago & Western Indiana R. R. Co. gen'l mtge. 6% G/B, due 1932	29,000	10,000.
Ditto cons. 4% G/B, due 1952	154,000	101,000.
Chilian Gov't 4½% loan of 1885	£17,200	34,200.
Ditto 4½% gold loan, 1889	£35,760	34,660.
Ditto 4½% bond, 1893	£36,200	39,200.
Ditto 4½% bond (laws September 9, 1910)	£79,840	√
Ditto 5% annuities series A, 1942	£87,360	67,660.
Ditto 5% annuities series B, 1943	£149,100	138,100.
Ditto 5% annuities series C, 1944	£429,980	415,580.
Chilian Northern Ry. 1st mtge. deb. 5's, 1940	£455,860	R.
Cincinnati Gas Transportation Co. 1st 5's 1933	27,000	R.
Cincinnati Hamilton & Dayton Ry. Co. 1st & ref. mtge. 4½ B/G of 1959 (cert. of dep.)	210,000	R.
Ditto 2nd (now first (mtge. 4½% due 1937	37,000	R.
Ditto Gen'l mtge. 5's G/B due 1942	25,000	R.
City Electric Co. 1st S/F 5's, 1937	2,000	R.
Cleveland, Cincinnati, Chicago & St. Louis Ry. Co. (St. Louis Div.) 1st Coll. Trust:		
Mtge. 4's, due 1990	17,000	R.
Ditto Gen'l mtge. 4% G/B, due 1993	158,000	60,000.
Ditto Gen'l mtge. 4% G/B due 1993 registered	8,000	√
Ditto Cincinnati, Wabash & Michigan div. 4's due 1991	4,000	R.
Ditto (Cairo, Vincennes & Chicago Ry. Co.) 1st mtge. 4's due 1939	45,000	R.
Ditto 4½% gold deb. due 1931	282,000	R.
Cleveland, Columbus, Cincinnati & Indianapolis Ry. Co. gen'l cons. mtge. 6's due 1934	5,000	R.
Ditto Registered	5,000	√
Cleveland Short Line Ry. Co. 1st mtge. guaranteed 4½'s due 1961	33,000	32,000.
Ditto Registered	50,000	R.
Cleveland & Mahoning Valley R. R. Co. cons. 5's due 1938	1,000	R.
Cleveland & Marietta Ry. Co. 1st mtge. 4½'s, due 1935	9,000	R.
Cleveland & Pittsburgh R. R. Co. gen'l mtge. 4½'s, series "A", due 1942	3,000	R.
Colorado Fuel & Iron Co. S/F 5's, 1943	633,000	625,000.
Colorado Springs & Cripple Creek District Ry. 1st mtge. 5½ G/B, 1930	25,000	R.
Colorado & Southern Ry. Co. 1st mtge. 4% G/B, due 1929	14,000	3,000.
Commonwealth Electric Company 1st 5's, 1943	1,000	R.
Connecticut Ry. & Lighting Co. 1st ref. 4½'s, 1951	1,000	R.
Consolidation Coal Co. conv. 6's, 1923	500	R.
Ditto 1st & ref. 5's, 1950	702,000	315,000.
Consolidated Gas Electric Light & Power Co. of Baltimore gen'l 4½'s 1935	136,000	60,000.
Consolidated Tobacco Co. 4's of 1951	1,000	R.
Consumers Power Co. 1st lien & ref. 5's, 1936	6,000	R.
Corn Products Refining Co. 25-yr. deb. S/F 5's, 1931	8,000	R.
Ditto 1st S/F 5's, 1934	1,000	R.
Cuba Republic of, external loan 5½ series "A", 1944	1,552,000	864,000 A & B.
Ditto 4½% series "C", 1949	5,570,000	3,615,000.
Dallas Electric 1st cl. trust 5's, 1922	3,000	R.
Dayton Electric Light Co. 1st 5's, 1921	1,000	R.
Delaware & Hudson Canal Co. 1st mtge. 7's, due 1917	8,000	R.
Delaware & Hudson Co. 1st & ref. mtge. 4's, 1943	15,000	R.

In re United Kingdom of Great Britain and Ireland 3- and 5-year 5½% secured loan notes—Collateral held by Guaranty Trust Company of New York, as pledged under above agreement at close of business December 27th, 1916—Con.

Description	Par	Status as 11/1/19
Denver & Rio Grande R. R. Co. 1st cons. mtge. 4's, due 1936	$299,500	$255,000.
Ditto registered	20,000	✓
Ditto 1st cons. 4½'s G/B due 1936	9,000	R.
Ditto 1st & ref. 5's, due 1955	215,000	R.
Ditto Impr. mtge. 5's G/B, 1928	1,351,000	1,098,500.
Detroit & Mackinac Ry. Co. 1st lien 4% G/B, due 1995	3,000	R.
Ditto Mtge. 4's, due 1995	12,000	✓
Detroit City Gas Co. 5's, 1923	1,000	R.
Detroit Edison Co. 1st 5's, 1933	3,000	R.
Detroit, Grand Haven & Milwaukee Ry. Co. cons. 6's, due 1918	274,000	R.
Ditto 1st equip. mtge. 6's, due 1918	129,000	R.
Detroit United Railways Co. 1st cons. 4½'s, 1932	21,000	R.
Duluth Edison Electric Co. 1st 5's, 1931	2,000	R.
Duluth & Iron Range R. R. Co. 1st mtge. 5% ,due 1937	25,000	10,000.
Duluth South Shore & Atlantic Ry. Co. 1st mtge. 5% G/B, due 1937	238,000	5,000.
Duluth Street Railway Co. 1st 5's, 1930	22,000	R.
Ditto Gen'l 5's, 1930	3,000	R.
East London Railway 1st deb. 3½%, stk	£50,000	✓
East Tenn. Virginia & Georgia Ry. Co. 1st mtge. 5% G/B, due 1930	2,000	R.
Ditto Consl. mtge. 5% G/B, due 1956	53,000	33,000.
Eastern Penn. Rys. Co. 1st 5's, 1936	5,000	R.
Eastern Power & Light Corp. conv. 5's, 1918	4,000	R.
Edison Electric Co. of Los Angeles 1st & ref. 5's, 1922	1,000	R.
Egyption Gov't guaranteed 3% loan, 1933 [417,800]	£1,749,500	£2,167,300.
Ditto 3½% preferred loan, 1941 [591,120]	£1,887,980	2,479,100.
Ditto 4% unified debt, 1941	£1,827,360	1,799,000.
Elgin Joliet & Eastern Ry. Co. 1st mtge. 5%, due 1941	23,000	R.
Equitable Gas & Electric Co. of Utica 1st 5's, 1942	1,000	R.
Erie Ry. Co. 1st cons. 7% G/B, due 1920	32,000	9,000.
Erie R. R. Co. gen'l mtge. conv. 4's, series "A", due 1953	101,000	R.
Ditto series "B", due 1953	60,000	58,000.
Ditto 1st cons. mtgs. gold gen'l lien, 4's, 1996	747,000	720,000.
Ditto Penn. coll. 4% G/B, due 1951, registered	100,000	✓
Ditto 1st cons. mtge. gold prior lien 4's, 1996	145,000	53,000.
Federal Light & Traction Co. 1st lien S/F 5's, due 1942	1,000	R.
Florida East Coast Ry. Co. 1st mtge. gold 4½'s, 1959	348,000	196,000.
Forth Bridge Ry. Co. deb. 4% stk	£95,000	✓
Fort Worth & Denver City Ry. Co. 1st mtge. 6's, 1921	5,000	✓
Fremont, Elkhorn & Missouri Valley R. R. Co. cons. mtge. 6's, 1933	5,000	R.
Furness Ry. Co. deb. 3%, stk	£180,000	✓
General Electric Co. deb. 3½'s, 1942	2,000	R.
Ditto Deb. 5's, 1952	11,500	R.
Ditto Deb. 5's, 1952, registered	7,000	✓
Georgia & Alabama Ry. Co. 1st cons. mtge. 5's, 1945	2,000	R.
Georgia, Carolina & Northern Ry. Co. 1st 5's, 1929	3,000	R.
Georgia, Light, Power & Ry. Co. 1st lien 5's, 1941	4,000	R.
Gila Valley Globe & Northern Ry. Co. 1st mtge. gold 5's, 1924	1,000	R.
Glasgow & Southwestern Ry. deb. 4% stk	£95,000	✓
Gouveneur & Oswegatchie R. R. Co. 1st mtge. 5's, 1942	20,000	✓
Grand Rapids & Indiana Ry. Co. 1st mtge. gold 4½'s, 1941	33,000	R
Great Central Ry. Co. deb. 4½% stk	£250,000	✓
Ditto 2nd deb. 3½% stk	£780,000	✓
Ditto Deb. 3½% 1925	£45,000	✓
Great Eastern Ry. Co. deb. 4% stk	£570,000	✓
Great Falls Power Co 1st S/F 5's, 1940	11,000	R.
Great North of Scotland Ry. 4%, deb	£24,000	✓
Great Northern Power Co. 1st 5's, 1935	20,000	R.
Great Northern Ry. Co. deb. 3% stk	£340,000	✓
Great Western Ry. 2½% stk	£15,000	✓
Ditto deb. 4% stk	£350,000	✓
Ditto deb. 4¼%	£18,000	✓
Ditto deb. 4½%	£140,000	✓
Ditto deb. 5%	£76,000	✓
Highland Ry. Co. deb. 4% stk	£10,000	✓
Hocking Valley Ry. Co. 1st cons. mtge. gold 4½'s, 1999	1,000	R.
Housatonic R. R. Co. cons. mtge. 5's, 1937	2,000	R.
Houston Electric 1st 5's, 1925	2,000	R.
Houston & Texas Central R. R. Co. 1st mtge. gold 5's, 1937	1,000	R.
Houston East & West Texas Ry. Co. 1st mtge. 5's, 1933	12,000	R.
Hudson & Manhattan R. R. Co. 1st lien & ref. 5's, series A, 1957	258,500	R.
Hudson County Gas Co. 1st 5's of 1949	3,000	R.
Hull & Barnsley Ry. Co. 1st deb. 3%	£85,000	✓
Ditto 2nd deb. 3% stk	£200,000	✓
Hutchinson Water, Light & Power Co. 1st 4's, 1928	5,000	R.
Illinois Central Ry. Co. trust 3½'s, 1950, sterling	£154,600	£124,200.

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Description	Par	Status as 11/1/19
Illinois Central R. R. Co., Cairo Bridge gold 4's, 1950	$33,000	$23,000.
Ditto registered	1,000	✓
Ditto 1st mtge. gold 3½'2, 1951	9,000	R.
Ditto 1st mtge. ext. 3½'s, 1951	4,000	R.
Ditto 1st mtge. 3½'s, 1951, registered	10,000	✓
Ditto St. Louis Div. & Terminal 1st mtge. gold 3's, 1951	52,000	R.
Ditto 1st mtge. ext. gold 4's, 1951	2,000	5,000.
Ditto St. Louis Div. & Terminal 1st mtge. 3½'s, 1951, registered	7,500	✓
Ditto gold 4's, 1952	46,500	28,000.
Ditto ditto registered	69,000	R.
Ditto ditto 1953, registered	26,000	R.
Ditto Louisville Div. & Terminal 1st mtge. gold 3½'s, 1953	5,000	R.
Ditto ditto registered	45,500	✓
Ditto 1st ref. mtge. gold 4's, 1955	37,000	R.
Ditto gold 4's, 1953	556,500	135,000.
Ditto Chicago, St. Louis & New Orleans joint 5's, 1963, series A	50,000	R.
Ditto ditto series B, sterling	£27,200	£6,700.
Illinois Steel deb. 4½'s, 1940	42,000	10,000.
Indiana Ry. Co. 1st 5's, 1930	1,000	R.
Indiana Steel Co. 1st 5's, 1952	5,000	R.
Ingersoll Rand Co. 1st 5's of 1935	6,000	R.
Ditto registered	50,100	✓
Interborough Metropolitan Co. coll. trust 4½'s, 1956	3,000	R.
Interborough Rapid Transit Co. 1st mtge. 5's, 1966	122,000	15,000.
International Mercantile Marine 1st. C/T 6's, 1941	136,000	R.
International & Great Northern Ry. Co. purchase money 6's, 1919	5,000	R.
Iowa Central Ry. Co. 1st mtge. 5's, 1938	5,000	✓
Jamestown, Franklin & Clearfield R. R. Co. 1st mtge. 4's, 1959	25,000	R.
Imperial Japanese Gov't 1st series sterling 4½'s, 1925	£3,303,200	2,543,000 (£).
Ditto sterling 4% loan, 1905–31	£651,030	790,520 (£).
Ditto sterling loan of 1910–70 (deposited with loan of 1905)	£1,100	378,400.
Ditto sterling 4½'s, 2nd series, 1925	£2,090,060	1,406,420 (£).
Ditto sterling 4% loan of 1899, series A 1,057,840	£303,750	2,040,650 (£).
Ditto sterling 4% loan of 1899, series B	£678,050	
Ditto sterling 4% loan of 1899, series C	£1,000	
Kansas City, Fort Scott & Memphis R. R. Co. cons. mtge. 6's, 1928	3,000	R.
Ditto ref. mtge. 4's, 1936	55,000	R.
Kansas City Southern Ry. Co. ref. & imp. gold 5's, 1950	425,000	✓
Ditto registered	3,000	✓
Kansas City Terminal Ry. Co. 1st mtge. gold 4's, 1960	278,000	108,000.
Ditto registered	35,000	✓
Kentucky & Indiana Terminal R. R. Co., 1st mtge. 4½'s, 1961	£153,100	£91,500.
Kings County Elevated R. R. Co. 1st 4's of 1949	1,000	R.
Lackawanna Steel Co. 5's, 1950, series A, conv	2,500	R.
Ditto 1923	6,000	✓
Laclede Gas Light Co., 1st 5's of 1919	16,000	R.
Lake Erie & Western R. R. Co. 1st mtge. gold 5's, 1937	5,000	R.
Lake Shore & Michigan Southern Ry. Co. 1st mtge. gold 3½'s, 1997	96,000	17,000.
Ditto registered	33,000	✓
Ditto deb. gold 4's, 1931	15,000	5,000.
Ditto registered	12,000	✓
Lancashire & Yorkshire Ry. deb. 3%	£635,000	✓
Lehigh & Hudson River Ry. Co. gen'l mtge. 5's of 1920	4,000	R.
Lehigh Valley Coal Co. 1st 5's, 1933	17,000	R.
Ditto registered	3,000	✓
Lehigh Valley Ry. Co. 1st mtge. gold 4½'s, 1940	24,000	R.
Ditto registered	29,000	R.
Ditto Cons. mtge. 6's, 1923	38,000	R.
Ditto gen'l cons. mtge. gold 4's, 2003	53,000	50,000.
Lehigh Valley Terminal Ry. Co. 1st mtge. 5's, 1941	9,000	R.
Ditto registered	46,000	R.
Lexington Ave. & Pavonia Ferry 1st 5's, 1993	1,000	R.
Liggett & Myers Tobacco Co. 7's of 1944	2,000	R.
Ditto registered	7,100	✓
Ditto 5's, 1951	8,000	R.
Ditto registered	4,950	✓
London, Brighton & South Coast 4% perpetual deb	£6,000	✓
Ditto 4½ perpetual stk	£150,000	✓
London & Chatham & Dover Ry. 4½% arb. deb	£190,000	✓
Ditto 4½% B stk	£25,000	✓
London & Greenwich 3½% deb	£9,000	✓
Ditto 4% perpetual deb. stk	£7,000	✓
London & Northwestern 3% perpetual deb. stk	£580,000	✓
London & Southwestern Ry. 3% A deb. stk	£3,000	✓
Ditto 3% cons. stk	£590,000	✓
Long Dock Co. cons. mtge. 6's, 1935	140,000	R.

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Description	Par	Status as 11/1/19
Long Island R. R. Co. cons. mtge. gold 5's, 1931	$29,000	$14,000.
Ditto gen'l mtge. gold 4's, 1938	32,000	R.
Ditto ref. mtge. gold 4's, 1949	99,000	30,000.
Ditto ditto registered	25,000	✓
Ditto deb. gold 5's, 1934	126,000	87,000.
Ditto Ferry 1st mtge. 4½'s, 1922	2,000	R.
Ditto Long Shore Branch 1st mtge. 5's, 1932	10,000	R.
P. Lorillard Co. 5's of 1951	1,000	R.
Ditto registered ⅞	3,050	✓
Ditto 7's of 1944	20,000	R.
Ditto registered	4,950	✓
Louisville & Jeffersonville Bridge Co. 1st mtge. 4's, 1945	25,000	R.
Louisville & Nashville R. R. Co. gen'l S/F gold 6's, 1930	75,000	R.
Ditto 1st mtge. trust 5's, 1931	24,000	R.
Ditto 1st mtge. 50-yr. 5's, 1937	2,000	R.
Ditto unified mtge. 4's, 1940, registered	25,000	✓
Ditto Atlanta, Knoxville & Cincinnati div. mtge. 4's, 1955	1,000	R.
Ditto Mobile, Montgomery div. 1st mtge. 4½'s, 1945	51,000	R.
Ditto Southeast & St. Louis div. 2nd mtge. 3's, 1980	8,000	R.
Louisville, Henderson & St. Louis Ry. Co. 1st mtge. 5's, 1946	5,000	R.
Lynn & Boston R. R. Co. 1st mtge. 5's, 1924	10,000	R.
Macon, Dublin & Savannah R. R. Co. 1st mtge. 5's, 1947	25,000	✓
Manhattan Ry. Co. cons. 4's, 1990 (unstamped)	30,000	R.
Maryland & Penn. R. R. Co. 1st mtge. 4's, 1951	2,000	R.
Metropolitan Ry. 3½'s deb. stk	£140,000	✓
Ditto 3½% A deb. stk	£150,000	✓
Michigan Central R. R. Co. deb. 4's, 1929	98,000	48,000.
Ditto 4's of 1957, 1st mtge., on Joliet & Northern Indiana R. R.	4,000	R.
Midland Ry. Co. 2½% deb. stk	£900,000	✓
Milwaukee Electric Ry. & Light cons. 5's, 1926	7,000	R.
Milwaukee, Lake Shore & Western Ry. Co. cons. 1st mtge. 6's, 1921	16,000	R.
Milwaukee, Lake Shore & Western Ry. Co., Michigan div. 1st mtge. 6's, 1924.	19,000	R.
Ditto Ashland div. 6's, 1925	23,000	R.
Minneapolis & Pacific Ry. 1st mtge. 4's, due 1936	23,000	R.
Minneapolis & St. Louis Ry., Pacific ext. 6's, due 1921	14,000	R.
Ditto 1st mtge. 7's, due 1927	71,000	45,000.
Ditto 1st cons. gold mtge. 5's, due 1934	3,000	R.
Minneapolis Gen'l Electric Co. 5's of 1934	5,000	R.
Minneapolis, S. S. Marie & Atlantic Ry. Co. 1st mtge. 4's, 1926	129,000	59,000.
Ditto registered	5,000	✓
Minneapolis, St. Paul & S. S. Marie Ry. Co. 1st cons. mtge. gold 4's, 1938	120,000	76,000.
Ditto registered	138,000	✓
Ditto 2nd mtge. gold 4's, 1949	375,000	190,000.
Minneapolis Street Ry. & St. Paul Ry. cons. 5's, 1928	12,000	R.
Minneapolis Union Ry. 1st mtge. 6's, due 1922	20,000	R.
Minnesota & Ontario Power Co. 1st 6's of 1917	1,000	R.
Ditto 1st 6's of 1922	12,500	R.
Ditto 1st 6's of 1923	9,500	R.
Ditto 1st 6's of 1928	14,000	7,000.
Mo. Pacific Co. 1st cons. mtge. 6's, due 1920	15,000	R.
Ditto 1st cons. 6's, certificates of deposit, due 1920	99,000	R.
Missouri, Kansas & Texas Ry. 1st mtge. 4's, due 1990	249,500	✓
Mobile & Birmingham R. R. prior lien 5's, due 1945	2,200	R.
Ditto 1st mtge. 4's, due 1945	6,000	R.
Mobile & Ohio 1st mtge. 6's, due 1927	10,000	6,500.
Ditto 1st mtge. ext. 6's, due 1927	2,000	R.
Mohawk & Malone Ry. 1st mtge. 4's, due 1991	14,000	5,000.
Montana Central Ry. 1st mtge. 5's, 1937	30,000	R.
Ditto 1st mtge. 6's, 1937	7,000	R.
Montana Power Co. 1st & ref. 5's, 1943, series A	49,500	4,000.
Morris & Co. 1st S/F 4½'s, 1939	1,000	R.
Morris & Essex R. R. Co. 1st & ref. 3½'s, 2000	20,000	R.
Mutual Fuel Gas Co. 1st 5's of 1947	8,000	R.
Nashville, Chattanooga & St. Louis Ry. Co. 1st cons. mtge. 5's, 1928	13,000	R.
Nashville Ry. & Light Co. ref. & ext. 5's, 1958	3,000	R.
Nassau Electric R. R. Co. 1st cons. 4's, 1951	2,000	R.
Newark Gas Co. 1st cons. 6's, 1944	3,000	R.
New England R. R. Co. cons. mtge. 4's, 1945	22,000	R.
New England Tel. & Tel. Co. 5's of 1932	4,000	R.
New Jersey Junction R. R. Co. 1st mtge. 4's of 1986	9,000	3,000.
New Orleans & Northeastern R. R. Co. prior lien ext. 5's, 1940	22,000	R.
New Orleans Ry. & Light Co. gen'l 4½'s, 1935	17,000	R.
New Orleans Terminal Ry. Co. 1st mtge. 4's, 1953, series A	100,000	R.
Newport News & Hampton Ry., Gas & Electric 1st & ref. 5's, 1944	40 000	R.
N. Y. Central Lines equip. trust of 1907, 5's, due 1917	7,000	R.
Ditto equip. trust 4½'s of 1912, due 1918, registered	4,000	R.
Ditto equip. trust 4½'s of 1913, due 1919	6,000	R.
Ditto ditto of 1910, due 1920	10,000	R.
Ditto ditto of 1912, due 1921	1,000	R.

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Description	Par	Status as 11/1/19
N. Y. Central Lines equip. trust 4½'s series 1910 due 1921	$2,000	R.
Ditto 1910 1922	17,000	5,000.
Ditto 1912 1923	15,000	R.
Ditto 1913 1925	10,000	R.
N. Y. Central R. R. Co. Cons. Mtge. 4's series "A" 1998	24,000	23,000.
N. Y. Central & Hudson River R. R. Co. Boston & Albany equipt. trust 4½'s 1919	1,000	R.
Ditto Deb. 4's 1934	126,000	R.
N. Y. Central Lines equipt. trust	0	R.
N. Y. Central & Hudson River R. R. Co. deb. 4's 1934, registered	10,000	✓
Ditto 1942	13,000	R.
Ditto 1942, registered	5,000	✓
Ditto 1st mtge. 3½'s 1997	119,000	16,000.
Ditto 1st 3½'s 1997 registered	31,000	✓
Ditto Lake Shore coll. 3½'s 1998 assenting registered	21,000	✓
Ditto 3½'s non-assenting registered bds	11,000	✓
Ditto 3½'s non-assenting bds. due 1998	29,000	R.
Ditto Michigan Central coll. 3½'s 1998	9,000	R.
Ditto 3½'s 1998, registered	1,000	✓
Ditto Ref. & imp. 4½'s 2013 series "A"	8,000	✓
Ditto Ref. & imp. 4½'s 2013 registered	5,000	✓
New York Chicago & St. Louis R. R. 1st mtge. 4's 1937	55,000	5,000.
Ditto Deb. 4's 1931	116,000	R.
New York Connecting R. R. Co. 1st mtge. 4½'s 1953, series "A"	33,000	R.
N. Y. Gas Electric Light Heat & Pwr. Co. 1st 5's 1948	19,000	R.
Ditto Purchase Money 4's 1949	1,000	R.
N. Y. Lackawana & Western R. R. Terminal & impr. 4's 1923	3,000	R.
N. Y. Lake Erie & Western R. R. 1st cons. mtge. 7's 1920	45,000	R.
N. Y. New Haven & Hartford R. R. conv. deb. 6's 1948	111,000	36,000.
Ditto Registered	28,800	✓
N. Y. Ontario & Western Ry. Co. ref. mtge. 4's 1992	20,000	5,000.
N. Y. Susquehanna & Western 1st ref. mtge. 5's 1937	77,000	R.
Ditto Terminal 1st 5's 1943	4,000	R.
N. Y. Telephone Co. 1st & gen'l 4½'s 1939 sterling	£54,300	30,000.
Ditto Registered	10,000	✓
N. Y. Westchester & Boston Ry. Co. 1st mtge. 4½'s 1946	192,000	15,000.
N. Y. & Erie R. R. 1st extended 4's 1947	3,000	R.
Ditto 4th mtge. 5's 1920	4,000	R.
N. Y. & Greenwood Lake Ry. Co. prior lien 5's 1946	3,000	R.
N. Y. & Jersey R. R. Co. 1st mtge. 5's 1932	18,000	5,000.
N. Y. & Northern R. Co. 1st 5's 1927	8,000	R.
N. Y. & Putnam R. R. Co. cons. mtge. 4's 1993	127,000	75,000.
N. Y. & Westchester Lighting Co. deb. 5's 1954	5,000	R.
New Zealand Gov't 4½% deb. 1925–45	£5,000,000	✓
Niagara Falls Power Co. 1st 5's 1932	6,000	R.
Ditto Ref. & gen'l 6's 1932	282,000	41,000.
Norfolk & Southern R. R. 1st 5's 1941	1,000	R.
Ditto 10–20 yr. Conv. 4's 1932	0	R.
Norfolk & Western R. Co. 10–20 yr. conv. 4's 1932	14,000	R.
Ditto 10–25 yr. conv. 4's 1932	18,000	R.
Ditto 10–25 yr. conv. 4½'s 1938	4,000	R.
Ditto 1st cons. 4's 1996	83,000	14,000.
Ditto Registered	25,000	✓
Ditto Divisional 1st lien & gen'l 4's 1944	18,000	6,000.
Ditto Registered	5,000	✓
Ditto New River div. 1st 6's 1932	19,000	✓
Ditto Gen'l 6's 1931	111,000	18,000.
Ditto Imp. & ext. 6's 1934	51,000	14,000.
Ditto & Pocahontas Coal & Coke purchase money 1st 4's 1941	92,000	30,000.
Ditto Registered	25,000	✓
North British Ry. Co. 3% deb. stk	£315,000	✓
Northeastern Ry. 3% deb. stk	£315,000	✓
North London Ry. 4½% deb. stk	£40,000	✓
North Staffordshire 3% cons. stk	£130,000	✓
North Pacific Great Northern Joint G/B C. B. Q. coll. 4's 1921	154,000	104,000.
Northern Pacific Ry. Co. prior lien 4's 1997	59,000	19,000.
Ditto Registered	3,500	✓
Ditto Gen'l lien 3's 2047	112,500	58,500.
Ditto Registered	5,000	✓
Ditto St. Paul & Duluth div. 4's 1996	41,000	15,000.
Ditto Registered	20,000	R.
Northern Westchester Lighting Co. 1st cons. 5's 1955	5,000	R.
North Western Elevated Co. 1st 5's 1941	469,000	288,000.
Ohio River R. R. 1st 5's 1936	5,000	R.
Oregon & California R. R. 1st 5's 1927	39,000	R.
Oregon R. R. & Navigation Co. cons. 4's 1946	56,000	32,000.
Oregon Short Line R. R. ref. 4's 1929	261,000	18,000.
Ditto 1st 6's 1922	0	R.

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Oregon, Washington R. R. & Navigation Co. 1st & ref. 4's 1961 Series "A"	$559, 000	$111,000.
Oregon, Washington R. R. & Navigation Co. 1st & ref. 4's 1961 Series "B" sterling	£75, 600	43,000.
Pacific Coast Co. 1st 5's 1946	46, 000	R.
Pacific Gas & Electric Co. gen'l & ref. 5's 1942 series "A"	20, 000	15,000.
Pacific R. R. of Missouri 1st ext. 4's 1938	4, 000	R.
Ditto 2nd ext. S/F 5's 1958	21, 000	R.
Pacific Tel & Tel. Co. 1st C/T 5's 1937	40, 000	R.
Penn. & Mahoning Valley Ry. Co. 1st & ref. 5's 1922	3, 000	R.
Penn. Co. 1st 4½'s 1921	137, 000	132,000.
Ditto Registered	17, 000	✓
Ditto Guaranteed 3½% gold trust ctfs. 1942 series "C"	52, 000	50,000.
Penn. Co. Guaranteed 3½'s gold trust ctfs. 1944, series "D"	127, 000	R.
Ditto 15–25 yar. 4% loan ctfs. 1931	81, 000	45,000.
Penn. gen'l freight equip. 4's 1920 registered	25, 000	R.
Ditto Equip. 4½'s 1917–23 registered	35, 000	R.
Penn. R. R. Co. cons. 4's 1943	8, 000	R.
Penn. R. R. Co. cons. 3½'s 1945 sterling	£24, 600	6,800 (£).
Ditto Cons. 4's 1948	16, 000	R.
Ditto Cons. 4's 1948 sterling	£93, 400	47,600.
Ditto Gen'l 4½'s 1965, series "A"	10, 000	✓
Pensacola & Atlantic R. R. 6's 1921	12, 000	R.
Peoples Gas Light & Coke Co. of Chicago 1st cons. 6's 1943	1, 000	R.
Perkiomen R. R. Co. 2nd series 5's 1918	7, 000	R.
Phil. & Erie R. R. 6's 1920	53, 000	R.
Phil. & Reading R. R. Co. ext. 5's 1933	1, 000	R.
Ditto Imp. 4's 1947	55, 000	5,000.
Phil. Co. conv. deb. 5's 1919	45, 000	R.
Ditto Conv. deb. 5's 1922	777, 000	544,000.
Ditto Cons. C/T 5's 1951	3, 000	R.
Pittsburgh, Cincinnati, Chicago & St. Louis Ry. cons. 4½'s 1940, series "A"	220, 000	93,000.
Ditto Cons. 4½'s 1942, series "B"	112, 000	45,000.
Ditto Cons. 4's 1945, series "D"	9, 000	R.
Pittsburgh, Cleveland & Toledo R. R. 1st 6's 1922	5, 000	R.
Pocahontas Cons. Collaries Co. 1st 5's 1937	21, 000	8,500.
Portland Ry. Co. 1st & ref. 5's 1930	17, 000	R.
Portland Ry. Light & Power Co. 1st ref. 5's 1942, series "A"	190, 000	10,500.
Portland Terminal Co. 1st 4's 1916	2, 000	R.
Provident Loan Society of N. Y. 4½'s 1921	9, 000	R.
Puget Sound Power Co. 1st 5's 1933	5, 000	R.
Puget Sound Traction Light & Power Co. 6's 1919	8, 000	R.
Reading Co. & Phil. & Reading Coal & Iron Co. gen'l 4's 1997	59, 000	1,000.
Reading Co. Jersey Central coll. 4's 1951	10, 000	R.
Richmond Washington Co. guaranteed coll. 4's, series "B" 1943	11, 000	R.
Ditto Guaranteed coll. 4's, series "C" 1943	5, 000	R.
Rio Grande Junction Ry. Co. 1st 5's 1939	86, 000	79,000.
Rio Grande Western 1st 4's 1939	102, 000	R.
Rio Grande Western Ry. Cons. 4's 1949	107, 000	10,000.
Rochester & Pittsburgh R. R. cons. 6's 1922	1, 000	R.
Rochester Ry. Co. 5's 1930	24, 000	R.
St. Lawrence & Adirondack Ry. Co. 2nd 6's 1996	1, 000	R.
Ditto 1st 5's 1996	19, 000	R.
St. Louis & San Francisco Ry. gen'l 5's 1931	3, 000	R.
Ditto Gen'l 6's 1931	5, 000	✓
St. Louis Bridge Co. 1st 7's 1929	45, 500	25,000.
St. Louis Iron Mt. Southern Ry. Co. gen'l cons. ry. & L/G 5's 1931	65, 000	30,000.
Ditto Unifying & ref. 4's 1929	120, 000	102,000.
Ditto River & Gulf div. 1st 4's 1933	5, 000	R.
St. Louis Merchants Bridge Terminal 1st 5's 1930	2, 500	R.
St. Louis Southwestern Ry. Co. 1st 4's 1989	31, 000	✓
Ditto Cons. 4's 1931	32, 000	6,000.
Ditto Terminal & unifying 5's 1952	4, 000	R.
St. Louis & Springfield & Peoria R. R. 1st & ref. 5's, due 1939	112, 000	85,000.
St. Paul City Ry. Co. cons. cable 5 's1937	25, 000	5,000.
St. Paul, Minneapolis & Manitoba cons. 4's 1933	2, 000	R.
Ditto Cons. 6's 1933	57, 000	30,000.
Ditto Montana ext. 1st 4's 1937	61, 000	56,000.
Ditto Pacific ext. 1st 4's 1940 sterling	£104, 000	20,000.
St. Paul & Duluth R. R. Co. 1st cons. 4's 1968	2, 000	R.
Ditto 2nd 5's 1917	1, 000	R.
St. Paul & Kansas City Short Line R. R. 1st 4½'s 1941 sterling	£700	R.
St. Paul & Sioux City R. R. 1st 6's 1919	15, 000	R.
San Antonio & Arkansas Pass Ry. Co. 1st 4's 1943	238, 000	R.
San Joaquin Light & Power Corp. 1st & ref. 5's 1950, series "B"	5, 000	✓
Savannah, Florida & Western Ry. Co. 1st 6's 1934 registered	24, 000	R.
Scioto Valley & New England R. R. Co. 1st 4's 1989	20, 000	R.

In re United Kingdom of Great Britain and Ireland 3- and 5-year 5½% secured loan notes—Collateral held by Guaranty Trust Company of New York, as pledged under above agreement at close of business December 27th, 1916—Con.

Description	Par	Status as 11/1/19
Seaboard Air Line Ry., Atlanta & Birmingham div. 1st 4's, 1933	$8,000	✓
Ditto Adj. 5's 1949	451,000	✓
Ditto 1st 4's 1950	71,000	43,000.
Ditto Ref. 4's 1959	252,000	✓
Seattle Electric Co. cons. & ref. 5's 1929	106,000	27,000.
Ditto (Seattle Everett) 1st 5's 1939	45,000	✓
Shamokin Sunbury & Louisburg R. R. Co. 2nd 6's 1925	18,000	R.
Shawinigan Water & Power Co. cons. 5's 1934	16,500	R.
Sioux City & Pacific R. R. 1st 3½'s 1936	25,000	R.
South Carolina & Georgia R. R. 1st 5's 1919	8,000	R.
South & North Alabama R. R. Cons. 5's 1936	12,000	R.
Southern Pacific Co. conv. 5's 1934	45,000	10,000.
Ditto Central Pacific stk. coll. 4's 1949	497,000	20,000.
Ditto San Francisco Terminal 4's 1950	150,500	110,000.
Ditto Cons. 4's 1929	123,000	113,000.
Ditto 1st ref. 4's 1955	84,000	71,000.
Southern R. R. Co. dev. & gen'l 4's 1956 (ctfs. of deposit)	645,000	R.
Southern Ry. Co. 1st cons. 5's 1994	80,000	R.
Ditto Dev. & gen'l 4's 1956, series "A"	✓592,000	870,000.
Ditto Eastern Tenn. reorganization lien 5's 1938	9,000	R.
Southeastern Ry. 3% perpetual stk	£75,000	✓
Ditto 4% perpetual stk	£55,000	✓
Ditto 5% perpetual stk	£145,000	✓
Spokane & Inland Empire R..R. Co. 1st 5's 1926	2,000	R.
Standard Gas & Electric Co. conv. 6's 1926	206,000	116,000.
Swift & Co. S/F 5's 1944	2,000	R.
Tenn. Coal Iron & R. R. Co. cons. 1st Birmingham div. 6's 1917	17,000	R.
Ditto Tenn. 1st cons. 6's 1917	2,000	R.
Terminal R. R. Assoc. of St. Louis 4½'s 1939	100,000	59,000.
Ditto 1st cons. 5's 1944	9,000	R.
Ditto Gen'l mtge. 4's 1953	421,000	153,000.
Texas & Pacific Ry. Co. Louisiana div. branch lines 1st 5's 1951	74,000	R.
Ditto 1st 5's 2000	74,000	R.
Texas Co. conv. deb. 6's 1931	5,000	R.
Third Ave. R. R. Co. 1st 5's 1937	12,000	R.
Ditto 1st 4's 1960	1,000	R.
Ditto Adj. 5's 1960	50,000	✓
Toledo & Ohio Central Ry. western lines 5's 1935	153,000	R.
Toledo, St. Louis & Western Ry. prior line 3½'s 1925	2,000	R.
Toledo Terminal R. R. Co. 1st 4½'s 1957	55,000	✓
Toledo Walhonding Valley & Ohio R. R. 1st 4½'s 1931, series "A"	12,000	R.
Ditto Series "B" 1933	2,000	R.
Tri-City Ry. & Light Co. 1st 5's 1930	4,000	2,000.
Union Oil Co. of Calif. 1st lien S/F 5's 1931, series "A"	17,000	R.
Union Pacific R. R. Co. conv. 4's 1927	12,000	R.
Ditto 1st mtge. L/G 4's 1947	68,000	8,000.
Ditto 1st lien & ref. 4's 2008	11,000	R.
Ditto 1st lien & ref. 4's 2008 sterling	£11,900	R.
Union of South Africa 4½'s 1925–45	£6,000,000	✓
United Electric Securities Co. coll. trust S/F 5's 1937, 26 series	1,000	R.
Ditto Coll. trust S/F 5's 1936, 23 series	1,000	R.
United Fruit Co. 5% notes 1918	12,500	R.
Ditto S/F 4½'s 1923	17,500	7,000.
Ditto S/F 4½'s 1925	500	R.
United Light & Rys. Co. 1st & ref. mtge. 5's 1932	9,000	R.
United New Jersey R. R. & Canal Co. gen'l 4's 1944	110,000	7,000.
Ditto Gen'l 4's 1929	14,000	R.
United Ry. & Electric Co. of Baltimore 1st cons. 4's 1949	10,000	R.
United Rys. Investment Co. 1st lien coll. trust 5's 1926	50,000	R.
U. S. Rubber Co. coll. trust 6's 1918	50,000	R.
U. S. Steel Corp. 50-yr. 5's 1951, series "F" registered	20,000	✓
Ditto 10–60 yr. S/F 5's 1963, 43,000	112,000	155,000.
United Utilities Co. 1st mtge. coll. trust 6's 1943	10,000	R.
Utah Light & Power Co. cons. 4's 1930	2,000	R.
Utah Securities Corp. 6's 1922	26,500	R.
Utica Electric Light & Power Co. 1st mtge. S/F 5's 1950	2,000	R.
Vandalia R. R. Co. cons. 4's 1957, series "B"	9,000	R.
Virginia Carolina Chemical Co. 1st mtge. 5's 1923	5,000	R.
Virginian Ry. Co. 1st 5's 1962, series "A"	49,500	23,000.
Wabash R. R. Co. equip. trust S/F 5's 1921	5,000	R.
Ditto 1st 5's 1939	16,000	R.
Ditto 2nd 5's 1939	63,000	R.
Washington Central Ry. Co. 1st 4's 1948	6,000	R.
Washington Terminal Co. 1st 4's 1945	5,000	R.
Washington Water Power Co. 1st ref. mtge. 5's due 1939	4,000	R.
Western Electric Co. 1st mtge. 5's 1922	5,000	R.
West Penn. Traction Co. 6% coll. trust G/N 1917	5,000	R.
West Shore R. R. Co. 1st 4's 2361	10,000	R.
West Virginia & Pittsburgh R. R. 1st 4's 1990	112,000	3,000.
Westchester Lighting Co. 1st mtge. 5's 1950	25,000	✓

In re United Kingdom of Great Britain and Ireland 3- and 5-year 5½% secured loan notes—Collateral held by Guaranty Trust Company of New York, as pledged under above agreement at close of business December 27th, 1916—Con.

Description	Par	Status as 11/1/19
Western Maryland R. R. Co. 1st 4's 1952	$12,000	✓
Western N. Y. & Penn. R. R. Co. 1st 5's 1937	22,000	R.
Ditto Gen'l 4's 1943	13,000	R.
Western Penn. R. R. Co. 4's 1928	55,000	R.
Western States Gas & Electric Co. 1st & ref. mtge. 5's 1941	3,000	R.
Western Transit Co. 1st mtge. 3½'s 1923	136,000	25,000.
Western Union Tel. Co. coll. trust 5's 1938	1,000	R.
Ditto Funding & real estate 4½'s 1950	8,000	R.
Westinghouse Electric & Man'f. Co. coll. trust 5's 1917	3,000	R.
Wheeling & Lake Erie R. R. Co. Wheeling div. 1st 5's 1928	8,000	R.
Wilkes-Barre & Eastern R. R. Co. 1st 5's 1942	61,000	3,000.
Wilmar & Sioux Falls Ry. Co. 1st 5's 1938	17,000	R.
Wisconsin Central Ry. Co. 1st gen'l 4's 1949	37,000	R.
Ditto 1st ref. 4's 1959	102,000	100,000.
American Sugar Refining Co. com. stk	11,500	R.
Atchison, Topeka & Santa Fe Ry. Co. pfd. stk	1,790,300	R.
California Ry. & Power Co. prior preference	400	R.
Canadian Pacific Ry. Co. C/S	100,000	55,460.
Chicago, Milwaukee & St. Paul Ry. Co. pfd	606,700	R.
Chicago & North Western Ry. Co. com	59,600	
Ditto Pfd	77,700	
Cities Service Co. pfd	690,700	
Cleveland & Pittsburgh R. R. Co. 7% guaranteed	237,150	
Conn. River R. R. Co. C/S	5,700	
Eastman Kodak Co. com	13,200	
Ditto Pfd	176,300	
Kansas City Ry. Co. pfd	24,000	
Louisville & Nashville R. R. Co. C/S	81,000	
Minneapolis, St. Paul & S. S. Marie com. stk	38,400	
Ditto Pfd	194,100	
Ditto Leased lines, Wisconsin Central Ry. 4% pfd	7,500	
Moline Plow 1st pfd	0	
Norfolk & Western Ry. Co. adj. pfd	25,000	R.
Penn. R. R. Co	1,745,550	72,100.
Pittsburgh, Ft. Wayne, Chicago Ry. Co. guaranteed (original)	10,800	R.
Pittsburgh Steel Co. pfd	131,100	R.
Union Pacific R. R. Co. com	82,400	25,300.
United Fruit Co. com. stk	128,100	R.

EXHIBIT No. 2691-C

BANKERS TRUST (ORIGINALS) COLLATERAL RECEIVED FROM OTHER BANKS ON U. K. $250,000,000 LOAN, FEB. 1, 1917

Bankers Trust Company

RESUME OF COLLATERAL RECEIVED FROM OTHER BANKS ON U. K. $250,000,000 LOAN FEB. 1, 1917

Type	Dollar value	No. of shares	Type	Dollar value	No. of shares
I	6,132,180		XV	500,000	
II	3,583,200		XVI	11,530,150	
II-A	736,150		XVI-A	500,000	
III	21,392,840		XVII		35,706
IV	5,386,000		XVIII		427,077
V	4,676,850		XIX		11,094
VI	15,035,400		XX	370,000	
VII	3,594,950		XXI		4,582
VIII	14,665,400		XXII	150,000	
IX		203,876	XXIII		7,376
X	161,665,275		XXIV		600
XI	50,000		XXV		4,500
XII	651,900		XXVI	1,781,000	
XIII	47,000,000				
XIV	613,000			300,014,245	694,811

NOTES

Type	Issue	Value
I	Cuba R. R. Co., 1st mtg. 5's due July 1952 (marked delivered to Liberty Nat.)	$86,000
II	Cuba R. R. Co., 1st 5's 1952 (marked delivered to J. P. M. & Co.)	50,000
II	State of Maryland Technical School 4's, 1927 (delivered to J. P. M. & Co.)	1,000
II	State of Maryland school loan 3½'s, 1924 (delivered to J. P. M. & Co.)	1,000
II	State of Maryland School Institution and Hospital loan 4's, B 1926, to J. P. M. & Co	1,000
II	U. S. of America 4's, 1925 (marked, "Erasures in slips when"	37,500
II	" 5's, 1918 received from J. P. M. & Co.)	9,500
II	Virginia funded debt deb. 3's, 1991 (delivered to J. P. M. & Co.)	1,000
II	U. S. of America 4's 1925 (erasures in slips when	400
II	" 1918 received from J. P. M. & Co.)	11,500
III	Chic. Mil. & St. Paul Ry. 4's, gen. "A" 1989 (returned to National Bank of Commerce)	550,000
III	Cuban American Sugar Co., coll. trust 6's, 1918 (delivered to National Bank of Com.)	245,000
IV	Cuban American Sugar Co., coll. trust 6's, 1918 (delivered to Treasury act.)	174,000
IV	Cuba R. R., 1st 5's, 1952 (delivered to Treasury act.)	104,000
X	Grand Trunk Pacific Ry. Co., 1st guar. sterling 3's, 1962 (to Morgan)	£76,000
X	Canadian Pacific Ry. Co., per. cons. deb. 4's (delivered to Morgan)	2,000,000
XVI	St. Louis, Southwestern Ry. Co., 1st cons., 1932 (marked "*Not delivered*")	777,000
XVI	Cuban American Sugar Co., coll. trust 6's, 1918 (delivered to J. P. M. & Co.)	851,000

DISPOSITION OF COLLATERAL UNDER UNITED KINGDOM OF GREAT BRITAIN AND IRELAND 1 & 2 YEAR 5½% SECURED LOAN—SCHEME B, GROUPS 1 & 2, SCHEME A, GROUPS 1 & 2, TREASURY, GROUPS 1 & 2

Type	Name of security	Face value	No. of shares
I	GR. I—SCHEME "A"—LIBERTY NAT. BANK—(GROUP I—PERMANENT)		
	Alabama & Great Southern R. R., 1st mtg. 5% 1927 (D. 6379)	$128,000	--------
	Amer. Tel. & Tel. Co., conv. 4's, 1936 (dep. no. 9044)	20,000	--------
	Amer. Tel. & Tel. Co., conv. 4½'s, 1933, dep. 8487	16,000	--------
	Ann Arbor R. R. Co., 1st mtg. 4%, 1995, dep. 6353	18,000	--------
	Atch. Top. & St. Fe Ry., conv. 4's, 1960, dep. 8487	30,000	--------
	Atl. Coast Line R. R. ,1st conv. 4's, 1952, dep. 8540	3,000	--------
	B. & O. R. R. Co., conv. 4½'s, 1933 (dep. 1372 (part))	259,500	--------
	Calif. Gas El. Corp., unif. & ref. 5's, 1937 (dep. 5725)	15,000	--------
	Chic. & No. West Ry., gen. mtg. 3½'s, 1987, dep. 6761	150,000	--------
	do	100,000	--------
	Chic. Burl. & Q. R. R., 4% neb. ext., 1927	12,000	--------
	Chic. Grt. West. R. R., 1st mtg. 4's, 1959	2,227,000	--------
	Chi. Rys. Co., 1st mtg. 5's, 1927	5,000	--------
	Chi. Rock Isl. & Pac. Ry. Co., gen. mtg. 4's, 1988	27,000	--------
	Chi. St. Paul, Minneapolis & Omaha Ry., con. 6's, 1930	1,000	--------
	Cinn. Gas Transportation Co., 1st mtg. 5's, 1933	8,000	--------
	City of New York, 4½'s 1957	5,000	--------
	Cleveland, Cinn. Chi. & St. Louis Ry., St. Louis div., 1st mtg. 4's, 1990 coll. trust	10,000	--------
	Cleveland, Cinn. Chi. & St. Louis Ry., Wabash & Michigan div., 1st 4's, 1991	4,000	--------
	Colorado & So. R. R., 1st mtg. 4's, 1929	4,000	--------
	Denver & Rio Grande R. R., 1st rfd. & 5's, 1955	319,000	--------
	Duluth Street Ry., 1st 5's, 1930	110,000	--------
	East Tennessee, Va. & Ga. Ry , cons. 5's, 1956	14,000	--------
	Do. 1st 5's, 1930	5,000	--------
	Erie Ry. Co., cons. mtg. 7's, 1920	32,000	--------
	G. E. Co., 5% deb. bds., 1952	7,500	--------
	Hocking Valley Ry. Co., 1st con. 4½'s, 1999	5,000	--------
	Ill. Cent. R. R. Co., stg. 4's, 1951	17,400	--------
	Int. Metropolitan Co., coll. trust 4½'s, 1956	6,000	--------
	Int. Merc. Marine Co., 1st mtg. coll. trust sink. fund 6%, 1941	46,680	--------
	Kansas City So. Ry. Co., 1st mtg. 3's, 1950	48,000	--------
	Kentucky & Indiana Term. R. R. Co., 1st mtg. 4½'s, 1961	2,200	--------
	Lehigh Valley R. R. Co., cons. mtg. 6's, 1923	7,000	--------
	Liggett & Myers Tobacco Co., 7%, 1944	3,000	--------
	P. Lorillard Co., 7's, due 1944	2,000	--------
	Louisville & Nashville R. R. Co., unif. 4's, 1940	18,000	--------
	Do. N. Orleans & Mobile div. 1st 6's, 1930	12,000	--------
	Manhattan Ry. Co., cons. mtg. 4's, 1990	19,000	--------
	Minneapolis & St. Louis Ry. Co., Pac. ext. 1st 6's, 1921	6,000	--------
	Do. 1st cons. mtg. 5's, 1934	7,000	--------
	Minneapolis & S. S. Marie & Atlantic Ry. Co., 1st 4's, 1926	15,000	--------
	Minnesota & Ontario Power Co., 1st mtg. 6's, 1922	2,000	--------
	Do. 1923	5,500	--------
	Do. 1927	7,000	--------

DISPOSITION OF COLLATERAL UNDER UNITED KINGDOM OF GREAT BRITAIN AND IRELAND 1 & 2 YEAR 5½% SECURED LOAN—SCHEME B, GROUPS 1 & 2, SCHEME A, GROUPS 1 & 2, TREASURY, GROUPS 1 & 2—Continued

Type	Name of security	Face value	No. of shares
I	GR. 1.—SCHEME "A"—LIBERTY NAT. BANK—(GROUP I—PERMANENT—) continued		
	Missouri Pacific Ry. Co., 1st cons. 6's, 1920 ctfs. of deposit	$51,000	----------
	Do. 1st cons. 6's, 1920	2,000	----------
	Mobile & Birmingham R. R. Co., 1st mtg. 4's, 1945	92,400	----------
	Nashville, Florence & Sheffield Ry. Co., 1st mtg. 5's, 1937	3,000	----------
	New York Air Brake Co., 1st mtg. conv. 6's, 1928	1,000	----------
	N. Y. Central & Hudson River R. R. Co., Lake Shore coll. 3½'s, 1998	5,000	----------
	Do. Michigan Central group, coll. 3½'s, 1998	46,000	----------
	Norfolk & Western Ry., conv. 4's, 1932	1,000	----------
	Oregon & California R. R., 1st 5's, 1927	51,000	----------
	Pacific Tel. & Tel. Co., 1st mtg. & coll. tr. 5's, 1937	50,000	----------
	Pennsylvania Co., guar. 3½'s ser. D, 1944	50,000	----------
	Pennsylvania R. R. Co., cons. 4's, 1943	3,000	----------
	Pennsylvania Water & Power Co., 1st S. F. 5's, 1940	361,000	----------
	Phila. & Erie R. R. Co., 6's, 1920	31,000	----------
	Reading Co. & The Phila. & Reading Coal & Iron Co., gen. mtg. 4's, 1997	23,000	----------
	Rio Grande Western Ry. Co., 1st mtg. 4's, 1939	208,000	----------
	St. Louis Iron Mt. & So. Ry. Co., gen. conv. & land grant 5's, 1931	5,000	----------
	St. Paul, Minneapolis & Manitoba Ry. Co., Montana ext. 1st mtg. 4's, 1937	5,000	----------
	San Antonio & Arkansas Pass, Ry. Co., 1st mtg. 4's, 1943	864,000	----------
	Seattle Electric Co., 1st mtg. 5's, 1930	5,000	----------
	So. Ry. Co., devel. & gen. mtg. 4's, ser. A 1956 ctfs. of dep	52,000	----------
	Do. actual bonds	34,000	----------
	Southern Ry., E. Tenn. reorg. 5's, 1938	3,000	----------
	Do. Mobile & Ohio coll. 4's, 1938	13,000	----------
	Terminal R. R. Assn. of St. Louis, gen. mtg. ref. S. F. 4's, 1953	50,000	----------
	Texas & Pacific Ry. Co., 1st mtg. 5's, 2,000	91,000	----------
	Union Pacific R. R., conv. 4's, 1927	15,000	----------
	Do. 1st mtg. R. R. & land grant 4's, 1947	23,000	----------
	United Fruit Co., 5's, 1918	50,000	----------
	U. S. Steel Corp., 10/60 yr. 5's, 1963	61,000	----------
	Wabash R. R. Co., 2nd mtg. 5's, 1939	5,000	----------
	Western N. Y. & Penna. R. R. Co., 1st mtg. 5's, 1937	20,000	----------
	Western Union Tel. Co., funding & real est. mtg. 4½'s, 1950	5,000	----------
	Willmar & Sioux Falls Ry. Co., 1st mtg. 5's, 1938	1,000	----------
		6,132,180	
II	GROUP 1—PERMANENT—J. P. MORGAN & COMPANY		
	Alabama Midland Ry. Co. 1st 5's, 1928	1,000	----------
	American Can Co., deb. S. F., 1928	52,500	----------
	Amer. Tel. & Tel. Co., coll. trust 4's, 1929	16,000	----------
	Am. Thread Co., 1st 4's, 1919	12,000	----------
	Ann Arbor R. R. Co., 1st 4's, 1995	2,000	----------
	Atch. Top. & Sante Fe Ry. Co., general 4's, 1995	5,000	----------
	Do. adj. 4's, 1995	2,000	----------
	Atlantic & Danville Ry. Co., 2nd mtg. 4's, 1948	429,000	----------
	Atlantic Coast Line R. R. Co., 1st cons. 4's, 1952	2,000	----------
	Do. gen. unif. 4½'s, 1964	3,000	----------
	B. & O. R. R. Co., 1st 4's, 1948	46,000	----------
	Do. prior lien 3½'s, 1925	2,500	----------
	Do. Pitts. Lake Erie & W. Va. Ry. ref. 4's, 1941	3,000	----------
	Do. Southwestern div. 1st 3½'s, 1925	1,500	----------
	Bangor & Aroostock R. R. Co., 1st 5's, 1943	3,000	----------
	B. R. T. Co., 5% notes, 1918	200,000	----------
	Calif. Gas & Elec. Corp., unif. & refd. 5's, 1937	5,000	----------
	Central Pacific Ry. Co., 1st ref. 4's, 1949	17,500	----------
	Do. 3½'s, 1929	1,000	----------
	Central R. R. of N. J., General 5's, 1987	5,000	----------
	Central R. R. & Banking Co. of Ga., coll. trust 5's, 1937	2,000	----------
	Chesapeake & Ohio Ry. Co., convs. 4½'s, 1930	2,000	----------
	Chi. & Northwestern Ry. Co., gen. 3½'s, 1987	1,000	----------
	Do. S. F. 6's, 1929	2,000	----------
	Chicago, Burlington & Quincy R. R. Co., gen. 4's, 1958	10,000	----------
	Do. Ill. div. 3½'s, 1949	1,000	----------
	Chicago, Great Western Ry. Co., 1st 4's, 1959	37,000	----------
	Chicago Junction Ry. Co., 1st 4's, 1945	8,000	----------
	Chicago, Milwaukee & St. Paul Ry., conv. 4½'s, 1932	49,000	----------
	Do. gen. 4's, 1989	10,000	----------
	Chicago Railways Co., 1st 5's, 1927	1,000	----------
	Chicago Rock Isl. & Pacific Ry. Co., gen. 4's, 1988	5,000	----------
	Do. 1st & rfd. 4's, 1934	17,000	----------
	Do. equip. 4's, "D"	51,000	----------
	Chicago, St. Louis & Pitts. R. R. Co., 1st cons. 5½'s, 1932	1,000	----------
	City of New York 4's, 1957	21,000	----------
	Do. 4's, 1959	35,000	----------
	Do. 4's, 1960	1,000	----------

DISPOSITION OF COLLATERAL UNDER UNITED KINGDOM OF GREAT BRITAIN AND IRELAND 1 & 2 YEAR 5½% SECURED LOAN—SCHEME B, GROUPS 1 & 2, SCHEME A, GROUPS 1 & 2, TREASURY, GROUPS 1 & 2—Continued

Type	Name of security	Face value	No. of shares
II	GROUP 1—PERMAMENT—J. P. MORGAN & COMPANY—continued		
	City of New York 4¼'s, 1962	$2,000	--------
	Do. 4¼'s, 1957	50,000	--------
	Do. 4½'s, 1963	8,000	--------
	Do. 6% revenue bonds, 1917	500	--------
	Do. assessment bonds 4½'s, 1917	5,000	--------
	Cleveland & Pittsburgh R. R. Co., gen. 4½'s, 1942, series "A"	5,000	--------
	Do. do "B"	25,000	--------
	Cleveland Short Line Ry. Co., 1st 4½'s, 1961	45,000	--------
	Colorado & Southern Ry. Co., pfd. & ext. 4½'s, 1935	9,000	--------
	Denver & Rio Grande R. R. Co., 1st cons. 4's, 1936	32,500	--------
	Do. imp. 5's, 1928	235,500	--------
	Detroit, Grand Haven & Mil. Ry. Co., cons. 6's, 1918	1,000	--------
	Do. equip. 6's, 1918	12,000	--------
	Duluth St. Ry. Co., 1st 5's, 1930	1,000	--------
	Erie R. R. Co., general lien 4's, 1996	8,000	--------
	Do. prior lien 4's, 1976	9,000	--------
	Erie Ry. Co., cons. 7's, 1920	3,000	--------
	Fort Worth & Denver City Ry. Co., 1st mtg. 6's, 1921	5,000	--------
	G. E. Co., deb. 5's, 1952	1,500	--------
	Great Falls Power Co., 1st S/F 5's, 1940	5,000	--------
	Hocking Valley R. Co., 1st cons. 4½'s, 1999	1,000	--------
	Illinois Central R. R. Co., 4's, 1953	25,000	--------
	Do. Chic. St. Louis & N. O. Jt., 1st ref. 5's, "A"-1963	2,000	--------
	Interborough R. T. Co., 1st & frd. 5's, 1966	2,000	--------
	Int. Merc. Marine Co., coll. trust co. 6's, 1941	32,000	--------
	Kansas City So. Ry. Co., ref. & imp. 5's, 1950	213,000	--------
	Kansas City Term. Ry. Co., 1st 4's, 1960	5,000	--------
	Lehigh Valley Ry. Co., cons. 6's, 1923	1,000	--------
	Liggett & Myers Tobacco Co., 7's, 1944	8,000	--------
	Long Island R. R. Co., deb. 5's, 1934	3,000	--------
	Do. ref. 4's, 1949	25,000	--------
	P. Lorillard Co., 7's, 1944	8,000	--------
	Louisville & Nashville R. R. Co., 1st trust 5's, 1931	1,000	--------
	Do. gen. 6's, 1930	2,000	--------
	Do. unif. 4's, 1940	14,000	--------
	Do. N. O. & Mobile div. 1st 6's, 1930	1,000	--------
	Do. Mobile & Montgomery div., 1st 4½'s, 1945	50,000	--------
	Manhattan Ry. Co., cons. 4's, 1990	6,000	--------
	Michigan Central R. R. Co., 1st 3½'s, 1952	1,000	--------
	Milwaukee Electric Ry. & Light Co., cons. 5's, 1926	1,000	--------
	Minneapolis St. Paul & S. S. Marie Ry. Co., 4's, 1938	13,000	--------
	Minneapolis S. S. Marie & Atlantic Ry. Co., 1st 4's, 1926	15,000	--------
	Montana River Co., 1st & ref. S/F 5's, 1943	7,000	--------
	Morris. & Essex R. R. Co., 1st & ref. 3½'s, 2000	50,000	--------
	Newark Passenger Ry. Co., 1st cons. 5's, 1930	1,000	--------
	N. Y. Central & Hudson River R. R. Co., 3½'s, 1997	35,000	--------
	Do. ref. & imp. 4½'s "A", 2013	2,500	--------
	Do. deb. 4's, 1934	36,000	--------
	N. Y. Central R. R. Co., Lake Shore coll. 3½'s, 1998	1,000	--------
	Norfolk & Western Ry. Co., dev. 1st lien & gen. 4's, 1944	7,000	--------
	Northern Pacific Ry. Co., con. lien 3's, 2047	52,000	--------
	Do. prior lien 4's, 1997	189,500	--------
	Do. Great Northern C. B. & Q. Jt., coll. 4's, 1921	57,000	--------
	Northwestern Telegraph Co., 1st funding 4½'s, 1934	4,000	--------
	Pennsylvania R. R. Co., cons. 4's, 1943	5,000	--------
	Do. cons. 3½'s, 1945	£1,200	--------
	Do. cons. 4's, 1948	£3,000	--------
	Pennsylvania Water & Power Co., 1st S/F 5's, 1940	8,000	--------
	Philadelphia & Reading R. R. Co., imp. 4's, 1947	8,000	--------
	Pitts. Cinn. Chi. & St. Louis Ry. Co., cons. 4½'s B, 1942	5,000	--------
	Reading Co. & Phila. & Reading Coal & Iron Co., gen. 4's, 1997	4,000	--------
	Richmond, Washington Co., guar. coll. trust 4's, 1943	50,000	--------
	St. Louis San Fran. gen. 5's, 1927, ctfs. of deposit	50,000	--------
	Do. 1st 6's, 1919	3,000	--------
	Do. adj. 6's, 1955 temp. bonds	69,500	--------
	Do. prior lien 4's, A 1950 temp. bonds	162,500	--------
	Do. 5% series B, 1950, temp. bonds	50,000	--------
	St. Louis Iron Mt. & So. Ry. Co., gen cons. 5's, 1931	1,000	--------
	St. Louis Peoria & Northwestern Ry. Co., 1st 5's, 1948	75,000	--------
	St. Paul, Mplo. & Manitoba Ry. Co., Pacific ext. 4's, 1940	£1,000	--------
	Seaboard Air Line Ry. Co., adj. 5's, 1949	153,000	--------
	Do. ref. 4's, 1959	5,000	--------
	South & North Alabama R. R. Co., cons. 5's, 1936	111,000	--------
	Southern Pacific Co., conv. 5's, 1934	2,500	--------
	Do. Central Pacific stock coll, 4's, 1949	59,500	--------
	Do. R. R. Co. 1st ref. 4's, 1955	21,000	--------
	Southern Ry. Co., east. Tenn., reorg. 5's, 1938	1,000	--------
	Tennessee Power Co., 1st 5's, 1962	2,000	--------

DISPOSITION OF COLLATERAL UNDER UNITED KINGDOM OF GREAT BRITAIN AND IRELAND 1 & 2 YEAR 5½% SECURED LOAN—SCHEME B, GROUPS 1 & 2, SCHEME A, GROUPS 1 & 2, TREASURY, GROUPS 1 & 2—Continued

Type	Name of security	Face value	No. of shares
II	GROUP 1—PERMANENT—J. P. MORGAN & COMPANY—continued		
	Terminal R. R. Assoc. of St. Louis, 1st cons. 5's, 1944	$3,000	----------
	Do. 1st 4½'s, 1939	17,000	----------
	Do. gen. ref. S/F 4's, 1953	5,000	----------
	Toledo & Ohio Cen. R. R. Co., western div. 1st 5's, 1953	11,000	----------
	Toronto Hamilton & Buffalo Ry. Co., 1st 4's, 1946	36,000	----------
	Union Pacific R. R. Co., 1st lien & ref. 4's, 2008	59,000	----------
	U. S. Steel Corp., S/F 5's, 1963	5,000	----------
	Vandalia R. R. Co., cons. 4's, 1957, "B"	6,000	----------
	Wisconsin Central Ry. Co., 1st & refd. 4's, 1959	9,000	----------
	Wheeling & Lake Erie R. R. Co., 1st cons. 4's, 1949 ctfs. of depst	108,000	----------
		3,561,600	----------
	Value in dollars (£@ $5)	3,583,200	----------
	J. P. MORGAN & CO.—BRITISH TREAS. ACCT.		
II-A	GROUP 1—PERMANENT—FULLY REGISTERED BONDS		
	B. &. O. R. R. Co., 1st mtg., 1948	$12,000	----------
	Do. prior lien 3½'s, 1925	2,000	----------
	Do. southwestern div. 1st 3½'s, 1925	50,000	----------
	Central R. R. of N. J., general 5's, 1987	3,500	----------
	Ches. & Ohio Ry. Co., conv. 4½'s, 1930	13,000	----------
	Chi. Burlington & Quincy R. R., Ill. div., 3½'s, 1949	15,000	----------
	Chi. Mil. & St. Paul Ry. Co. 4's, 1934	33,000	----------
	Do. gen. mtg. 4½'s C, 1989	2,000	----------
	Chi. Rock Isl. & Pacific Ry. Co., 1st lien & ref. 4's, 1934	200,000	----------
	Cinn. Ind. St. Louis & Chi. Ry. Co., gen. 4's, 1936	7,000	----------
	City of Buffalo, refd. 4½'s, Nov. 15, 1932	1,000	----------
	City of Jersey City school bonds 4¼'s, 1942	4,000	----------
	City of New York, 3½'s, May 1954	9,200	----------
	Do. 4's, May 1, 1959	10,500	----------
	Do. 4¼'s, Mar. 1960	2,000	----------
	Do. 4¼'s, Sept. 1960	1,000	----------
	Do. 4¼'s, Mar. 1962	6,500	----------
	Do. 4½'s, May 1957	400	----------
	Do. 4¼'s, Nov. 1957	1,200	----------
	Do. 4½'s, Mar. 1963	13,500	----------
	Do. 6's, revenue bonds, Sept. 1917	17,500	----------
	Cleveland, Cinn. Chi. & St. Louis Ry. Co., deb. 4½'s, 1931	10,000	----------
	Delaware & Hudson Co., 1st & ref. 4's, 1943	5,000	----------
	Illinois Cent. R. R. Co., St. Louis Div. & term. 1st 3½'s, 1953	1,500	----------
	Do. 1951	1,000	----------
	Illinois Cent. R. R. Co., Cairo bridge 4's, 1950	1,000	----------
	Ingersoll, Rand Co., 1st 5's, 1935	2,400	----------
	Liggett & Myers Tobacco Co. 5's, 1951	250	----------
	Do. 5's, 1944	950	----------
	P. Lorillard Co. 5's, 1951	400	----------
	Do. 7's, 1944	850	----------
	Minne., St. Paul & S. S. Marie Ry. Co. 4's, 1938	4,000	----------
	N. Y. Central & Hudson River R. R. Co. 3½'s, 1997	20,000	----------
	Do. deb. 4's, 1934	6,000	----------
	N. Y. Central Lines, equip. trust 4½'s, 1910, due 1920	10,000	----------
	Penn., genl. fright equip., 4½'s, R 1921	20,000	----------
	Do. 4½'s, P 1922	5,000	----------
	Do. 4½'s, C 1918	5,000	----------
	Do. 4½'s, D 1919	1,000	----------
	Peoria & Northwestern Ry. Co. 1st 3½'s, 1926	29,000	----------
	Phila. & Erie R. R. Co. 6's, 1920	15,000	----------
	Portland Ry., Lt. & Power Co., 1st & ref. S/F 5's, A 1942	2,000	----------
	Reading Co. & The Phila. & Reading Coal & Iron Co., genl. 4's, 1997	17,000	----------
	St. Louis, Springfield & Peoria R. R. Co., 1st ref. 5's, 1939	5,000	----------
	St. Paul, Mpls. & Manitoba Ry. Co., cons. 4's, 1933	12,000	----------
	Do. 4½'s, 1933	27,000	----------
	Sioux City & Pacific Ry. Co., 1st 3½'s, 1936	43,000	----------
	Southern Pacific Co., conv. 4's, 1929	10,000	----------
	Union Pacific R. R. Co., conv. 4's, 1927	2,000	----------
	United New Jersey R. R. & Canal Co., gen. 4's, 1944	1,000	----------
	Do. 1923	14,000	----------
	United States Steel, S/F 5's, 1963	19,000	----------
	Virginian Ry. Co., 1st 5's, "A" 1962	13,000	----------
	Washington Terminal Co., 1st 3½'s, 1945	6,000	----------
	West Shore R. R. Co., 1st guar. 4's, 2361	17,000	----------
	Winston-Salem Southbound Ry. Co., 1st 4's, 1960	5,000	----------
		736,150	----------

NATIONAL BANK OF COMMERCE IN N. Y.

Type	Name of security	Face value	No. of shares
III	SHEET 1, GROUP 1, PERMANENT BONDS—SCHEME “A”		
	Alabama Great Southern R. R., gen. 5's, 1927	£1,700	---------
	Alabama Midland Ry., 1st 5's, 1928	$32,000	---------
	Allegheny Valley Ry., gen. 4's, 1942	3,000	---------
	Am. Tel. & Tel. Co., coll. trust 4's, 1929	6,000	---------
	“ “ “ “ “ conv. 4½'s, 1933	5,100	---------
	Am Thread Co., 1st 4's, 1919	500	---------
	Atch., Top. & Santa Fe Ry. Co., conv. 4's, 1960	6,000	---------
	“ “ “ “ “ “ “ “ 5's, 1917	2,000	---------
	“ “ “ “ “ “ “ adj. 4's, 1995	3,500	---------
	B. & O. R. R. Co. P/L 3½'s, 1925	516,000	---------
	B. & O. R. R. Co., Pitts., Lake Erie & W. Va., pfd. 4's, 1941	301,000	---------
	“ “ Southwestern div., 1st 3½'s, 1925	222,000	---------
	Beech Creek R. R. Co., 1st 4's, 1936	5,000	---------
	Bethlehem Steel Co., 1st lien & ref. 5's “A”, 1942	1,000	---------
	Brooklyn Rapid Transit Co., 5% notes, 1918	20,000	---------
	Bush Terminal Co	131,000	---------
	California Gas & Electric Corp., unif. & ref. 5's, 1937	47,000	---------
	Carthage & Adirondack R. R., 1st 4's, 1981	13,000	---------
	Central Pacific Ry., 3%'s, 1929	21,000	---------
	Central R. R. of N. J., general 5's, 1987	206,000	---------
	“ “ & Bkg. Co. of Georgia, coll, trust 5's, 1927	130,000	---------
	Central Vermont Ry., 1st 4's, 1920	12,000	---------
	Chesapeake & Ohio Ry., conv. 4½'s, 1930	526,000	---------
	“ “ “ “ 1st cons. 5's, 1939	41,000	---------
	“ “ “ “ general 4½'s, 1992	242,000	---------
	“ “ “ “ Richmond & Allegheny div., 1st cons. 4's, 1989	5,000	---------
	Chicago & Erie R. R., 1st 5's, 1982	5,000	---------
	Chi. & Northwestern Ry., S/F deb. 5's, 1933	57,000	---------
	Chi. & Western Indiana R. R., cons. 4's, 1952	260,000	---------
	Chi. & Burlington & Quincy R. R., Ill. div., 3½'s, 1949	100,000	---------
	“ “ “ “ Denver ext. 4's, 1922	60,000	---------
	Chi. Milwaukee & St. Paul Ry. 4's, 1934	40,000	---------
	“ “ “ 4's, 1934	75,000	---------
	“ “ 4's, general “A”, 1989	145,000	---------
	“ Milwaukee & St. Paul Ry., Chi. & Mo. River div., 1st 5's, 1926	2,000	---------
	“ “ “ Wisc. & Minn. div., 1st 5's, 1921	15,000	---------
	“ Railway Co., 1st 5's, 1927	99,000	---------
	“ Rock Island & Pacific, genl. 4's, 1988	140,000	---------
	“ “ “ 1st & rfg. 4's, 1934	1,244,000	---------
	“ St. Paul & Mpls. & Omaha Ry. deb. 5's, 1930	1,000	---------
	Cinn. Gas Transportation Co., 1st 5's, 1933	74,000	---------
	City of N. Y., 3½'s, April 1954	2,000	---------
	“ “ 4's, May 1959	1,000	---------
	“ “ 4¼'s, Sept. 1940	13,000	---------
	“ “ 4¼'s, March 1926	5,000	---------
	“ “ 4½'s, May 1957	7,000	---------
	“ “ 4½'s, Nov. 1957	88,000	---------
	“ “ 4½'s, Nov. 1957	163,000	---------
	“ “ 4½'s, March 1963	13,000	---------
	Cleveland & Marietta Ry., 1st 4½'s, 1935	28,000	---------
	“ & Pittsburgh R. R., gen. 4½'s, “A” 1942	12,000	---------
	“ Cincinnati Chicago & St. Louis Ry. Co., gen. 4's, 1993	105,000	---------
	“ “ “ “ St. Louis div., 4's 1990	24,000	---------
	Colorado & Southern Ry., 1st 4's, 1929	22,000	---------
	Cleveland, Cinn. Chi. & St. Louis Ry. Co., Cinn. Wabash & Mich. div., 1st 4's, 1991	6,000	---------
	Colorado & Southern Ry., ref. & extn., 4½s, 1935	115,000	---------
	Connecticut Ry. & Light Co., 1st refg., 4½'s 1951	3,000	---------
	Con. Gas, El. Light & Power Co. of Balt., gen. 4½'s, 1935	194,000	---------
	Denver & Rio Grande, 1st refd. 5's, 1955	299,000	---------
	“ “ “ “ 1st cons. 4's, 1936	608,000	---------
	“ “ “ “ imp. 5's, 1928	968,500	---------
	Detroit & Mackinac Ry. Co., 4's, 1995	2,000	---------
	Detroit Grand Haven & Milwaukee, equip. & cons., 6's, 1918	854,600	---------
	East Tennessee, Virginia & Georgia Ry. Co., cons. 5's, 1956	28,000	---------
	“ “ “ “ “ “ Co., 1st 5's, 1930	1,000	---------
	Erie R. R. Co., conv. 4's, series “A”, 1953	92,000	---------
	“ “ “ “ “ “ “B”, 1953	65,000	---------
	“ “ “ general lien 4's, 1996	547,000	---------
	“ “ “ prior lien 4's, 1996	281,000	---------
	“ “ “ cons. 7's, 1920	69,000	---------
	G. E. Co., deb. 5's, 1952	$33,000	---------
	Hocking Valley Ry. Co., 1st cons. 4½'s, 1999	91,000	---------
	Illinois Central R. R. Co., stg. 3½'s, 1950	£68,600	---------
	“ “ “ “ “ 4's, 1951	£23,200	---------
	“ “ “ “ 4's, 1952	$225,000	---------
	“ “ “ “ 4's, 1953	487,000	---------
	“ “ “ “ Louisville div. & term. 1st 3½s, 1953	50,000	---------

NATIONAL BANK OF COMMERCE IN N. Y.—Continued

Type	Name of security	Face value	No. of shares
	SHEET 1, GROUP 1, PERMANENT BONDS—SCHEME "A"—continued		
III	Illinois Central R. R. Co., Chi. St. Louis & N. O. R. R. Co. joint 1st ref. ser. "B" 5's, 1963	£33,800	----------
	" Northern Utilities Co., 1st & ref. 5's, 1957	$65,000	----------
	" Steel Co., 4½'s deb. bonds, 1940	126,000	----------
	Ingersoll Rand Co., 1st mtg. 5's, 1935	22,400	----------
	Interborough Rapid Transit Co., 1st & ref. 5%, 1966	87,000	----------
	International & Grt. Northern R. R. Co., purchase money 1st mtg. 6's, 1919	86,000	----------
	Int. Mercantile Marine, 1st mtg. & coll. 6's, 1941	38,190	----------
	Kansas City Southern Ry. Co., 1st mtg. 3's, 1950	7,000	----------
	" " " " " ref. & impt. 5's, 1950	230,000	----------
	" " Terminal Ry. Co., 1st mtg. 4's, 1960	1,056,000	----------
	" " " " " " " " "	17,000	----------
	Kentucky & Indiana Terminal R. R. Co., 1st mtg. 4½'s, 1961	£200,100	----------
	Lake Shore & Mich. Southern Ry. Co. 3½'s, 1997	$29,000	----------
	" " " " " " " 3½'s, 1997	33,000	----------
	" " " " " " " deb. 4's, 1928	5,000	----------
	" " " " " " " 25 year 4's, 1931	37,000	----------
	Lehigh Valley Coal Co., 1st 5's, 1933	14,000	----------
	Lehigh Valley Railroad Co., cons. mtg. 6's, 1923	79,000	----------
	Liggett & Myers Tobacco Co., 7's, coupon bonds, 1944	1,000	----------
	Do. 7's, 1944	18,500	----------
	Long Island R. R. Co., 40 year 5's, deb. gold bonds, 1934	61,000	----------
	Long Island R. R. Co., ref. 4's, 1949	150,000	----------
	P. Lorillard Co. 7's, 1944	6,850	----------
	" 7's, 1944	1,000	----------
	Louisville & Nashville R. R. Co., 1st trust 5's, 1931	162,000	----------
	" " Gen. 6's, 1930	22,000	----------
	" " 50 yr. unif. 4's, 1940	130,000	----------
	" " N. O. & Mobile div., 1st 6's, 1930	17,000	----------
	Manhattan Ry. Co., cons. 4's, 1990	60,000	----------
	Michigan Central R. R. Co., 1st 3½'s, 1952	65,000	----------
	Milwaukee Elec. Ry. Co. & Light, cons. 5's, 1926	49,000	----------
	Minneapolis & St. Louis R. R., 1st 5's, 1934	37,000	----------
	Minneapolis, St. Paul & S. S. Marie Ry., 2nd 4's, 1949	113,000	----------
	Minneapolis S. S. Marie & Atlantic Ry., 1st 4's, 1926	71,000	----------
	Minnesota & Ontario River Co., 1st 6's, 1922	24,000	----------
	" " " 1st 6's, 1923	16,000	----------
	" " " 1st 6's, 1928	84,000	----------
	Missouri Kansas & Texas Ry., 1st 4's, 1990	7,000	----------
	Missouri Pacific, 1st cons. 6's, 1920	30,000	----------
	Montana Power Co., 1st & ref. S/F 5's "A", 1943	$34,200	----------
	Minnesota & Ontario Power Co., 1st 6's, 1926	12,000	----------
	Nashville, Florence & Sheffield Ry. Co., 1st mtg. 5's, 1937 12,000	12,000	----------
	Nashville Ry. & Light Co., ref. & ext. 5's, 1958	37,000	----------
	N. Y. Air Brake Co., 1st mtg. conv. 6's, 1928	7,000	----------
	N. Y. Central & Hudson R. R. R. Co. 3½'s, 1997	333,000	----------
	" " " " 4% deb. bonds, 1934	251,000	----------
	" " " " Lake Shore, coll. 3½'s, 1998	84,000	----------
	" " " " Mich. Cent., coll. 3½'s, 1998	40,000	----------
	" " " " Lake Shore, coll. 3½'s, 1998	84,000	----------
	" " " " Mich. Cent., coll. 3½'s, 1998	40,000	----------
	N. Y. Telephone Co., 1st gen. mtg. 4½'s, 1939	£5,200	----------
	" " " " " " 1939	$4,500	----------
	Norfolk & Western Ry. Co., 4% conv. bonds, 1932	17,000	----------
	" " div. 1st lien & gen. mtg. 4's, 1944	197,000	----------
	No. Pacific Ry. Co., gen. lien 3's, due 2047	257,500	----------
	No. Pac. Gt. No. joint bonds, C. B. & Q. coll. 4's, 1921	141,000	----------
	Northwestern Teleg. Co., 1st mtg. 4½'s, 1934	25,000	----------
	Oregon & Calif. R. R., 1st 5's, 1927	92,000	----------
	Oregon-Washington R. R. & Nav. Co., 1st & ref. 4's "B", 1961	£316,500	----------
	Pacific Tel. & Tel. Co., 1st mtg. & coll. tr. S/F 5's, 1937	$15,000	----------
	Pennsylvania Co. 4½'s, 1921	217,000	----------
	Pennsylvania R. R. Co., cons. 4's, 1948	£161,200	----------
	Peskiomen R. R., 2nd series 5's, 1918	$28,000	----------
	Phila. & Erie R. R. 6's, 1920	65,000	----------
	Phila. & Reading R. R., imp. 4's, 1947	89,000	----------
	Pitts. Cinn., Chi. & St. Louis Ry., con. 4½'s, series "A", 1940	50,000	----------
	Pitts. Cinn. Chi. & St. Louis Ry., cons. 4's, series D, 1945	50,000	----------
	Portland Ry. Co., 1st & refd. S/F 5's, 1930	76,000	----------
	Reading Co. & The Phila. & Reading Coal & Iron Co., gen. mtg. 4's, 1997	29,000	----------
	St. Louis & Cairo R. R. Co., 4% mtg. bonds, 1931	7,000	----------
	St. Louis, Iron Mt. & So. Ry., unif. & ref. 4's, 1929	216,000	----------
	St. Louis, Springfield & Peoria R. R., 1st ref. 5's, 1939	91,000	----------
	St. Paul, Minn. & Manitoba Ry. Co., cons. mtg. 4½'s, 1933	35,000	----------
	" " " " Pac. ext., 50 yr. 4's, 1940	£123,200	----------
	South & North Alabama R. R. Co., cons. 5's, 1936	$14,000	----------
	Southern Pacific Co., conv. 5's, 1934	148,500	----------
	Toledo & Ohio Central R. R. Co., west. div., 1st 5's, 1935	3,000	----------

NATIONAL BANK OF COMMERCE IN N. Y.—Continued

Type	Name of security	Face value	No. of shares
III	SHEET 1, GROUP 1, PERMANENT BOND—SCHEME "A"—continued		
	Toledo Walkonding Valley & Ohio R. R. Co., 4½'s, series "A", 1931	$15,000	----------
	United Fruit Co., 4 year 5% coupon gold notes, 1918	13,500	----------
	" " " sinking fund debenture 4½'s, 1923	31,000	----------
	" N. J. R. R. Canal Co., 4% gold loan, 1944	30,000	----------
	Willimar & Sioux Falls Ry., 1st mtg. 5% gold bonds, 1938	4,000	----------
		17,658,840	----------
	Value in dollars (£=$5)	21,392,840	----------

TRANSFERRED FROM BRITISH GOVT. TREASURY ACCT. TO 5½% LOAN OF 1917 (FEB.)

IV	GROUP 1—PERMANENT—SCHEME A		
	Alabama, Grt. Southern R. R., 1st 5's, 1927	$10,000	----------
	Do gen. 5's, 1927	£2,600	----------
	Alabama Midland Ry., 1st 5's, 1928	$4,000	----------
	Allegheny Valley Ry., gen. 4's, 1942	14,000	----------
	American Can Co., deb. S/F 5's, 1928	1,000	----------
	Amer. Tel. & Tel. Co., coll. trust 4's, 1929	20,000	----------
	Do conv. 4's, 1936	1,000	----------
	Do conv. 4½'s, 1933	2,000	----------
	American Thread Co., 1st 4's, 1919	2,500	----------
	Armour & Company, 1st 4½'s, 1939	1,000	----------
	Atch. Top. & Santa Fe Ry. Co., conv. 4's, 1955	16,000	----------
	Do 1960	6,000	----------
	Do 5's, 1917	9,000	----------
	Do gen. 4's, 1995	108,000	----------
	Do adj. 4's, 1995	39,500	----------
	Do do	21,000	----------
	Atlantic Coast Line R. R., 1st cons. 4's, 1952	7,000	----------
	B. & O. R. R. Co., cons. 4½'s, 1933	39,500	----------
	Do 1st 4's, 1948	91,500	----------
	Do P/L 3½'s, 1925	54,500	----------
	Do Pitts., Lake Erie & W. Va., ref. 4's, 1941	23,000	----------
	Do southwestern div., 1st 3½'s, 1925	78,500	----------
	Battle Creek & Sturges Ry. Co., 1st 3's, 1989	60,000	----------
	Beech Creek R. R. Co., 1st 4's, 1936	9,000	----------
	Bethlehem Steel Co., 1st lien & ref. 5's A, 1942	5,000	----------
	Buffalo & Susquehanna R. R. Corp., 1st 4's, 1963	8,000	----------
	Buffalo Ry. Co., 1st cons. 5's, 1931	1,000	----------
	Bush Terminal Co., 1st cons. 5's, 1955	2,000	----------
	California Elec. Generating Co., 1st 5's A, 1948	2,000	----------
	California Gas & Elec. Corp., unif. & rfd. 5's, 1937	13,000	----------
	Carthage & Adirondack R. R., 1st 4's, 1981	6,000	----------
	Central Pacific Ry., 1st ref. 4's, 1949	21,500	----------
	Do 3½'s, 1929	8,500	----------
	Central R. R. of N. J., gen. 5's, 1987	39,000	----------
	Central Vermont Ry., 1st 4's, 1920	5,000	----------
	Chesapeake & Ohio Ry., conv. 4½'s, 1930	14,000	----------
	Do 1st cons. 6's, 1939	7,000	----------
	Ches. & Ohio Ry., gen. 4½'s, 1992	4,000	----------
	Do Richmond-Allegheny div., 1st cons. 4's, 1989	6,000	----------
	Chicago & Erie R. R., 1st 5's, 1982	3,000	----------
	Chicago & Northwestern Ry., S/F deb. 5's, 1933	5,000	----------
	Do ext. 4's, 1926	2,000	----------
	Chicago & Western Indiana, cons. 4's, 1952	2,000	----------
	Chicago, Burl. & Quincy, Ill. div. 3½'s, 1949	1,000	----------
	Do Neb. ext. S/F 4's, 1927	4,000	----------
	Chicago Grt. Western Ry., 1st 4's, 1959	7,000	----------
	Chicago Indpls. & Louisville Ry., ref. 4's C., 1947	1,000	----------
		787,600	----------
	Chic. Milw. & St. Paul Ry. 4's, 1934	17,000	----------
	Do conv. 4½'s, 1932	1,000	----------
	Do general 4's, 1989	7,000	----------
	Do Chi. & Mo. Riv. div. 1st 5's, 1926	1,000	----------
	Do Wisc. & Minn. div. 1st 5's, 1921	1,000	----------
	Chi. Milw. & St. Paul Ry., Chic. & Pac. Western 1st 5's, 1921	2,000	----------
	Chi. Rock Island & Pac. Ry., gen. 4's, 1988	1,000	----------
	" " " " " 1st & ref. 4's, 1934	4,000	----------
	" St. Louis & Pitts. R. R., 1st cons. 5's, 1932	1,000	----------
	" St. Paul, Mpls. & Omaha Ry., cons. 6's, 1930	3,000	----------
	Cinn. Gas Transportation Co., 1st 5's, 1933	1,000	----------
	City of Newark school bonds 4's, 1959	5,000	----------
	" " N. Y. 3½'s due May 1954	4,000	----------
	" " " " " Nov. 1954	3,000	----------

TRANSFERRED FROM BRITISH GOVT. TREASURY ACCT. TO 5½% LOAN OF 1917 (FEB.)—Continued

Type	Name of security	Face value	No. of shares
IV	GROUP 1—PERMANENT—SCHEME A—continued		
	City of N. Y. 4's due May 1959	$23,000	----------
	" " " 4¼'s " Mar. 1960	23,000	----------
	" " " " " Sept. 1960	13,000	----------
	" " " " " Mar. 1962	27,000	----------
	" " " 4½'s " May 1957	108,000	----------
	" " " " " Nov. 1957	12,000	----------
	" " " " " Mar. 1963	6,000	----------
	" " " 6% revenue bonds, Sept. 1917	500	----------
	" " St. Louis public blds. & imp. 4's, 1929	1,000	----------
	" " Tacoma Elec. Lt. & Power Fund 5's, 1924	8,500	----------
	" " " " " " " " 5's, 1925	23,000	----------
	" " " " " " " " 5's 1926	42,000	----------
	Cleveland & Marietta Ry., 1st 4½'s, 1935	6,000	----------
	Cleveland Cinn. Chi. & St. Louis Ry. Co., gen. 4's, 1993	11,000	----------
	" " " " " " " St. Louis div. 4s, 1990	2,000	----------
	" " " " " " " Cinn. Wabash & Mich., 1st 4's, 1991	29,000	----------
	Cleveland, Cinn., Chi. & St. Louis Ry., Cairo & Vincennes, 1st 4's, 1939	1,000 --	----------
	Cleveland Lorain & Wheeling Ry., 1st cons. 5's, 1933	1,000 --	----------
	Colorado & Southern Ry., 1st 4's, 1929	2,000 --	----------
	" " " " ref. & ext. 4½'s, 1935	3,000 --	----------
	Colorado Power Co., 1st 5's, 1953, Amer. ser	10,000 --	----------
	Connecticut Ry. & Light Co., 1st ref. 4½'s, 1951	1,000 --	----------
	Cons. Gas Elec. Lt. & Power Co. of Baltimore, gen. 4½'s, 1935	16,000 --	----------
	Cuba R. R., 1st 5's, 1952	104,000 --	----------
	Colombia & Hocking Valley R. R., 1st ext. 4's, 1948	10,000 --	----------
	Denver & Rio Grande R. R., 1st ref. 5's, 1955	5,000 --	----------
	" " " 1st cons. 4's, 1936	48,500 --	----------
	" " " 1st cons. 4½'s, 1936	10,000 --	----------
	" " " imp. 5's, 1928	43,000 --	----------
	Detroit & Mackinac Ry. 4's, 1995	40,000 --	----------
	" United Rys., 1st cons. 4½'s, 1932	1,000 --	----------
	" Grand Haven & Mil. Ry., cons. 6's, 1918	10,500 --	----------
	" " " " " equip. 6's, 1918	18,000 --	----------
		1,497,600 --	----------
	Duluth, South Shore & Atlantic Ry., 1st 5's, 1937	2.000 --	----------
	East Tenn. Virginia & Georgia Rv., cons. 5's, 1956	5,000 --	----------
	" " " " " " 1st. 5's, 1930	1,000 --	----------
	Erie R. R. Co. Cons. 4's "A" 1953	2,000 --	----------
	" " " " "B" 1953	1,000 --	----------
	Erie R. R. Co., gen. lien 4's, 1996	66,000	----------
	" " prop. lien 4's, 1996	28,000	----------
	" Ry. Co., cons. 7's, 1920	11,000	----------
	Florida Central & Peninsular R. R., 1st 5's, 1918	1,000	----------
	Grand Rapids & Indiana R. R., 1st mtg. Muskegan div. 5's, 1926	16,000	----------
	General Elec. Co., deb. 3½'s, 1922	5,000	----------
	" " " " 5's, 1952	4,000	----------
	Great Northern Power Co., 1st 5's, 1935	5,000	----------
	Hackensack Water Co., 1st 4's, 1952	3,000	----------
	Husdon & Manhattan R. R. Co., 1st lien & ref. 5's "A", 1957	4,500	----------
	" County Gas Co., 1st 5's, 1949	7,000	----------
	Illinois Central R. R. Co., stg. 3½'s, 1950	£75,000	----------
	" " " " 4's, 1951	£44,600	----------
	" " " " 4's, 1952	$39,000	----------
	" " " " 4's, 1953	64,000	----------
	" " " " 1st 3½'s, 1951	3,000	----------
	" " " " 1st extd. 3½'s, 1951	3,000	----------
	" " " " Cairo bridge 4's, 1950	1,000	----------
	" Northern Utilities Co., 1st ref. 5's, 1957	1,000	----------
	" Steel Co. deb. 4½'s, 1940	5,000	----------
	Interborough Metropolitan Co., coll. tr. 4½'s, 1956	77,000	----------
	" Rapid Transit Co., 1st & ref. 5's, 1966	6,000	----------
	Int. & Grt. Northern Ry., pur. money 6's, 1919	1,000	----------
	Kansas City Ft. Scott & Memphis Ry., rfd. 4's, 1936	1,000	----------
	" " Southern Ry., 1st 3's, 1950	2,000	----------
	" " " " ref. & imp. 5's, 1950	1,000	----------
	" " Terminal Ry., 1st 4's, 1960	32,000	----------
	Kentucky & Indiana Terminal R. R., 1st 4½'s, 1961	£10,300	----------
	Lake Shore & Mich. Southern Ry. 3½'s, 1997	$9,000	----------
	" " " deb. 4's, 1928	17,000	----------
	" " " " " 1931	7,000	----------
	Lehigh Valley Coal Co., 1st 5's, 1933	6,000	----------
	Lehigh Valley Ry., 1st 4½'s, 1940	1,000	----------
	Long Island R. R., deb. 5's, 1934	4,000	----------
	" " " refd. 4's, 1949	10,500	----------

TRANSFERRED FROM BRITISH GOVT. TREASURY ACCT. TO 5½% LOAN OF 1917 (FEB.)—Continued

Type	Name of security	Face value	No. of shares
IV	GROUP 1—PERMANENT—SCHEME A—continued		
	Louisville & Nashville R. R., 1st trust 5's, 1931	$8,000	--------
	“ “ general 6's, 1930	3,000	--------
	“ “ unif. 4's, 1940	52,000	--------
	“ “ N. O. & Mobile div. 1st 6's, 1930	4,000	--------
	“ “ St. Louis div. 2nd 3's, 1980	8,000	--------
	“ “ equipment trust 5's "A", 1923	2,000	--------
	Manhattan Ry. Co., cons. 4's, 1990	27,000	--------
		2,173,500	--------
	Michigan State Telephone Co., 1st 5's, 1924	2,000	--------
	Milwaukee Elec. Ry. & Light Co., cons. 5's, 1926	5,000	--------
	Minneapolis & St. Louis Ry., Pac. ext. 1st 6's, 1921	1,000	--------
	“ “ “ “ “ 1st 5's, 1934	1,000	--------
	“ St. Paul. & S. S. Marie Ry. 4's, 1938	105,000	--------
	“ “ “ “ Chi. Terml. 4's, 1941	2,000	--------
	“ “ “ “ 2nd 4's, 1949	22,000	--------
	“ S. S. Marine & Atlantic Ry., 1st 4's, 1926	34,000	--------
	Minnesota & Ontario Power Co., 1st 6's, 1922	1,000	--------
	“ “ “ “ “ “ 1923	4,000	--------
	“ “ “ “ “ “ 1927	2,500	--------
	“ “ “ “ “ “ 1928	500	--------
	Mississippi River Power Co., 1st 5's, 1951	30,000	--------
	Missouri, Kansas & Texas Ry., 1st 4's, 1990	10,000	--------
	“ Pacific Ry., 1st cons. 6's, 1920	17,000	--------
	Mobile & Birmingham, 1st 4's, 1945	32,000	--------
	Montana Central Ry., 1st 6's, 1937	15,000	--------
	Montana Power Co., 1st & ref. S/F 5's A, 1943	500	--------
	Mohawk & Moline Ry., 1st guar. 4's, 1991	1,000	--------
	Montauk Ext. R. R., 1st 5's, 1945	1,000	--------
	Nashville, Chattanooga & St. Louis Ry., Jasper div., 1st 6's, 1923	4,000	--------
	Nashville, Florence & Sheffield Ry., 1st 5's, 1937	2,000	--------
	Nashville Ry. & Light Co., refd. & ext. 5's, 1958	4,000	--------
	N. Y. Air Brake Co., 1st conv. 6's, 1928	2,500	--------
	“ & Erie R. R., 2nd 5's, 1919	2,000	--------
	“ Central & H. R. R. R., 3½'s, 1997	66,000	--------
	“ “ “ deb. 4's, 1934	39,000	--------
	“ “ “ Lake Shore, coll. 3½'s, 1998	25,000	--------
	“ “ “ Michigan Cent., coll. 3½'s, 1998	26,000	--------
	“ Chi. & St. Louis Ry., 1st 4's, 1937	3,000	--------
	“ Gas Elec. Lt. Heat & Power Co. of Balt., pur. money 4's, 1949	4,000	--------
	“ Penn. & Ohio R. R., reorg. P/L 4½'s, 1935	500	--------
	N. Y. Telephone Co., 1st & gen. 4½'s, 1939	12,000	--------
	Norfolk & Western Ry., 10–25 year 4's, 1932	1,000	--------
	“ “ “ 1st cons 4's, 1995	39,000	--------
	“ “ “ general 6's, 1931	2,000	--------
	“ “ & Pocohantas Coal & Coke jt. pur. money 1st 4's, 1941	3,000	--------
	“ & Southern Ry., 1st refd. 5's "A", 1961	5,000	--------
	Northern California Power Co., 1st S/F 5's, 1932	3,000	--------
	“ Pacific Ry. Co., genl. lien 3's, 2047	31,500	--------
	“ “ “ prior lien 4's, 1997	53,500	--------
	“ “ Govt. Northern C., B. & Q. coll. jt. 4's, 1921	22,000	--------
	Oregon & California R. R., 1st 5's, 1927	25,000	--------
	“ Short Line R. R., ref. 4's, 1929	1,000	--------
	“ Washington R. R. & Navig. Co., 1st & ref. 4's, "A", 1961	5,000	--------
	Pacific Tel. & Tel. Co., 1st coll. tr. S/F 5's, 1937	2,000	--------
	Pennsylvania Co., 4½'s, 1921	21,000	--------
		2,864,000	--------
	Pennsylvania Co., Girard Trust ctfs. D 3½'s, 1944	4,000	--------
	“ R. R. Co., cons. 4's, 1943	3,000	--------
	“ “ “ 3½'s, 1945	£59,000	--------
	“ “ “ 4's, 1948	£18,800	--------
	“ Water & Power Co., 1st S/F 5's, 1940	$59,000	--------
	Peoples Gas Light & Coke Co. of Chi., ref. 5's, 1947	4,000	--------
	Perkiomen R. R., 2nd ser. 5's, 1918	5,000	--------
	Phila. & Erie R. R., 6's, 1920	6,000	--------
	“ & Reading R. R., imp. 4's, 1947	8,000	--------
	Phila. Co., conv. deb. 5's, 1922	51,000	--------
	Pitts, Cinn., Chi. & St. Louis Ry., cons. 4½'s "A", 1940	4,000	--------
	“ “ “ “ “ “ “ “ "B", 1942	6,000	--------
	“ “ “ “ “ “ “ 4's "D", 1945	6,000	--------
	Portland Ry. Co., 1st & ref. S/F 5's, 1930	7,000	--------
	“ “ Light & Power Co., 1st & ref. S/F 5's "A", 1942	3,000	--------
	Public Service Corp. of N. Y., gen. S/F 5's, 1959	5,000	--------
	Puget Sound Elec. Ry., 1st cons. 5's, 1932	5,000	--------
	Reading Co. & Phila. & Reading Coal & Iron Co., gen. 5's, 1997	9,000	--------
	Reading Co., Jersey Central collat. 4's, 1951	2,000	--------
	Rio Grande Junction Ry., 1st 5's, 1939	4,000	--------
	“ “ Western Ry., 1st trust 4's, 1939	4,000	--------
	Rock Island Frisco Terminal Ry., 1st 5's, 1927	5,000	--------

TRANSFERRED FROM BRITISH GOVT. TREASURY ACCT. TO 5½% LOAN OF 1917 (FEB.)—Continued

Type	Name of security	Face value	No. of shares
IV	GROUP 1—PERMANENT—SCHEME A—continued		
	St. Louis & Cairo R. R. 4's, 1931	$12,000	----------
	“ “ Bridge Co. 1st 7's, 1929	10,000	----------
	“ “ Iron Mt. & Southern Ry. River & Gulf div., 1st 4's, 1933	19,000	----------
	“ “ Iron Mt. & Southern Ry., unif. & ref. 4's, 1929	102,000	----------
	“ “ & Southwestern Ry., 1st cons. 4's, 1932	7,000	----------
	“ “ Springfield & Peoria R. R., 1st ref. 5's, 1939	14,000	----------
	St. Paul Minneapolis & Manitoba Ry., cons. 4½'s, 1933	2,000	----------
	“ “ “ “ “ Montana ext. 1st 4's, 1937	2,000	----------
	“ “ “ “ “ Pacific ext. 4's, 1940	£21,600	----------
	St. Paul & Kansas City Short Line R. R., 1st 4½'s, 1941	150,000	----------
	San Antonio & Aransas Pass Ry., 1st 4's, 1943	19,000	----------
	San Joaquin Light & Power Co., 1st & ref. 5's "B", 1950	1,000	----------
	Savannah Florida & Western Ry., 1st 6's, 1934	1,000	----------
	Scioto Valley & New England R. R., 1st 4's, 1989	5,000	----------
	Seaboard Air Line Ry., adj. 5's, 1949	17,000	----------
	“ “ “ “ ref. 4's, 1959	9,000	----------
	Seattle Electric Co., 1st 5's, 1930	100,000	----------
	Southern Pacific Co., conv. 4's, 1929	19,000	----------
	“ “ “ “ 4½'s, 1929	1,000	----------
	“ “ “ “ 4's, 1934	12,500	----------
	“ “ “ “ Central Pac. stock collat. 4's, 1949	19,000	----------
	“ “ R. R. Co., 1st ref. 4's, 1955	37,000	----------
	“ Ry. Co. devel. & Gen. mtg. 4's "A", 1956	12,000	----------
	“ Ry. Co. east Tenn. reorg. 5's, 1938	5,000	----------
	“ “ Mobile & Ohio, collat. 4's, 1938	4,000	----------
		3,762,900	----------
	Terminal R. R. Assn. of St. Louis, 1st 4½'s, 1939	7,000	----------
	“ “ “ “ “ “ “ gen. ref. S/F 4's, 1953	2,000	----------
	Terra Haute & Peoria R. R., 1st 5's, 1942	49,000	----------
	Texas & Pacific Ry., 1st 5's, 2000	136,000	----------
	Toledo Walhouding Valley & Ohio R. R. 4½'s "A", 1931	8,000	----------
	“ “ “ “ “ “ "B", 1933	2,000	----------
	Union Pacific R. R., conv. 4's, 1947	9,500	----------
	“ “ “ “ 1st mtg. 4's, 1947	9,500	----------
	“ “ “ “ 1st lien & ref. 4's, 2008	2,500	----------
	United Fruit Co., 4 yr. 5% notes, 1918	8,000	----------
	“ “ “ S/F deb. 4½'s, 1923	500	----------
	United N. J. R. R. & Canal Co., general 4's, 1944	5,000	----------
	U. S. Steel Corp., 50 yr. 5's B, 1951	1,000	----------
	“ “ “ 10/60 yr. S/F, 1963	62,000	----------
	Virginian Ry. Co., 1st 5's "A", 1962	3,000	----------
	Wabash R. R., 2nd 5's, 1939	2,000	----------
	Washington Ry. & Elec. Co., cons. 4's, 1951	5,000	----------
	Western Elec. Co., 1st 5's, 1922	4,000	----------
	“ N. Y. & Penn. R.R ., 1st 5's, 1937	1,000	----------
	“ Penn. R. R. 4's, 1928	2,000	----------
	Western Tel. & Tel. Co., collat. tr. 5's, 1932	13,000	----------
	“ Union Tel. Co., funding & real est. 4½%, 1950	3,000	----------
	West Shore R. R. Co., 1st guar. 4's, 2361	7,000	----------
	W. Va. & Pitts. R. R., 1st 4's, 1990	22,000	----------
	Wheeling & Lake Erie R. R., 1st cons. 4's, 1949	115,000	----------
	Wilmar & Sioux Falls Ry., 1st 5's, 1938	3,000	----------
	Wisconsin Central Ry., 1st & ref. 4's, 1959	91,000	----------
	Atch. Top. & Santa Fe Ry. Co., Calif.-Ariz. lines, 1st & ref. 4½'s B, 1926	£600	----------
	Illinois Central R. R. & Chi. St. Louis & N. O., joint 1st ref. 5's B, 1963	£3,300	----------
	N. Y. Telephone Co., 1st & gen. 4½'s, 1939	£7,800	----------
	Oregon-Wash. R. R. & Nav. Co., 1st & ref. 4's B, 1961	£4,300	----------
	Union Pacific R. R. Co., 1st lien & ref. 4's, sterling, 2008	£16,500	----------
		4,368,400	----------
	Value in dollars (£ @ $5)	$5,386,000	----------

NATIONAL BANK OF COMMERCE

V	BONDS—SCHEME B (GROUP 2—PERMANENT)		
	Egyptian Govt. guar. loan 3%	£115,800	----------
	“ “ preference 3½'s, 1876	£41,900	----------
	“ “ unified debt. 4's, 1876	£208,900	----------
	Imperial Japanese Govt., 4% sterling loan, 1905/1931	£117,810	----------
	“ “ “ “ 1910–1970	£159,980	----------
	“ “ “ 4½'s, 1905–1925	£290,980	----------
		935,370	----------
	Value in dollars (£ @ $5)	4,676,850	----------

LIBERTY NATIONAL BANK

Type	Name of security	Face value	No. of shares
VI	SCHEME B—BONDS		
	Argentine Govt. 5's of 1884	£53, 760	----------
	Chilean Govt. 4½'s, 1885	£30, 900	----------
	Rep. of Cuba, external 5's, 1944, series "A" & "B"	$184, 500	----------
	“ “ “ “ 4½'s, 1949, "C"	$190, 000	----------
	Japanese Govt. 4%, 1910–70	£150, 000	----------
	“ “ 5%, 1904–47	£450, 000	----------
	“ . “ 4½%, 1905–25, 1st series	£ 300, 000	----------
	Egyptian Govt. 3% guar. bonds	£182, 900	----------
	“ “ unified debt, 4%, 1876	£325, 000	----------
	“ “ preference 3½'s, 1876	£446, 000	----------
	Dominion of Canada 3½'s, 1930–50	£5, 000	----------
	“ “ “ Canadian Pacific Ry Co. 3½% land grant, 1888	£63, 200	----------
	“ “ “ 3¼%, 1914–19	£70, 020	----------
	“ “ “ 4%, 1940–60, reg. stock	£500	----------
	“ “ “ 4½% loan, 1920–25	£131, 700	----------
	“ “ “ 3% inscribed stock, 1938	£20, 500	----------
	“ “ “ 3½% “ “ 1909–34	£1, 800	----------
	“ “ “ Province of Alberta, deb. 4½%, 1924	$37, 500	----------
	Grand Trunk Pacific Ry. Co., 1st mtg. sterling 3%, 1962	£638, 900	----------
	“ “ “ “ “ “ “ “ “ “	£51, 500	----------
		3, 336, 680	----------
	Value in dollars	15, 035, 400	----------

NATIONAL BANK OF COMMERCE

VII	BONDS—SCHEME "B"		
	Dominion of Canada 3½% loan, 1930–50	£500	----------
	“ “ “ Can. Pac. Ry. 3½% land grant, 1938	£10, 000	----------
	“ “ “ 3¾% loan, 1914–19	£30, 350	----------
	“ “ “ 4½%, 1920–25	£46, 300	----------
	“ “ “ Prov. of Alberta, deb. 4½'s, 1924	$25, 000	----------
	Grand Trunk Pacific Ry. Co., 1st guar. sterling 3's, 1962	£501, 400	----------
	Republic of Cuba, ext. 5's, series A & B, 1944	$39, 500	----------
	“ “ “ “ 4½'s, “ C, 1949	$100, 000	----------
	Argentine Govt. 5's, 1884	£24, 740	----------
	Chilean Govt. 4½'s, 1885	£67, 200	----------
	Republic of Cuba, ext. 5's, series A & B, 1944	$13, 000	----------
	“ “ “ “ 4½'s, “ C, 1949	$15, 000	----------
		872.990	
	4 Value in dollars (£ @ $5)	3, 594, 950	----------

BANKERS TRUST CO.

VIII	SCHEME "B"		
	Imperial Japanese Govt., 4% sterling loan, 1905–31	£194, 870	----------
	“ “ “ “ “ “ 1899	£333, 500	----------
	Egyptian Govt. 3% guar. bonds	£386, 500	----------
	“ “ 3½% preference loan of 1876	£189, 200	----------
	“ “ unified debt. 4%, 1876	£1, 005, 860	----------
	Republic of Cuba, external 5's, 1944, series "A" & "B"	$36, 500	----------
	“ “ “ “ “ “ “ “ “	47, 500	----------
	“ “ “ “ 4½'s, 1949, series "C"	18, 000	----------
	“ “ “ “ “ “ “ “	124, 000	----------
	Argentine Govt. 5% loan, 1884	£42, 080	----------
	Chilean “ 4½% loan, 1885	£40, 500	----------
	Dominion of Canada, 3½% loan, 1930–50	£400	----------
	“ “ “ C. P. R. 3½'s, land grant	£68, 800	----------
	“ “ “ 3¾% loan, 1914–19	£69, 870	----------
	“ “ “ 4%, 1940–60, reg. stock	£700	----------
	“ “ “ 4½% loan, 1920–25	£168, 300	----------
	“ “ “ 3% inscribed stock, 1938	£35, 900	----------
	“ “ “ Prov. of Alberta, deb. 4½'s, 1924	$3, 000	----------
	Grand Trunk Pac. Ry. Co., 1st guar. 3's, 1962	£430, 800	----------
		3, 196, 280	----------
	Value in dollars	14, 665, 400	----------

J. P. MORGAN & CO.

Type	Name of security	Face value	No. of shares
IX	GROUP 1—PERMANENT—STOCK		
	Am. Beet Sugar pfd	$10,000	100
	Am. Agri. Chem. Co. pfd	5,000	50
	Am. Smelters Securities Co. pfd. A	3,700	37
	Am. " " " " B	52,500	525
	Am. Smelting & Refining Co. com	10,000	100
	Am. Tel. & Tel. Co	17,200	172
	Am. Thread Co. pfd	46,500	930
	Am. Tobacco Co. pfd	3,000	30
	Anaconda Copper Mining Co	126,750	2,535
	Atch., Top. & Santa Fe Co. com	170,700	1,707
	" " " " " " pfd	199,200	1,992
	Am. Woolen Co. pfd		10
	Atlanta & Charlotte Air Line Ry		200
	Atlantic Coast Line R. R. com	5,000	50
	B. & O. R. R. com	217,500	2,175
	" " " pfd	98,000	980
	Am. Smelting & Refining Co. com		50
	Brown Shoe Co. pfd		25
	Central Leather Co. pfd	35,500	355
	Central R. R. of N. J	1,200	12
	Ches. & Ohio Ry. Co. capital stock		2,055
	Chi. & Northwestern Ry. com	57,700	577
	Chi. Great Western R. R. pfd	42,600	426
	Chi. Mil. & St. Paul Ry. com		1,420
	" " " " " pfd	36,300	363
	Cities Service Co. pfd	143,800	1,438
	Cleveland & Pitts. R. R. guar. 7% stock		995
	" Cinn., Chi. & St. Louis Ry. pfd		43
	Cons. Gas Elec. Lt. & Power Co. of Balt. common		3,219
	" " " " " " pfd	115,400	1,154
	Crucible Steel Co. pfd		25
	Cuban Am. Sugar Co. "		11
	Delaware & Hudson Co		100
	Eastman Kodak Co. com	13,200	132
	" " " pfd	47,500	475
	Electric Bond & Share pfd		100
	Erie R. R. 1st pfd	26,900	269
	Gen. Elec. Co	3,200	32
	Gen. Motors Corp. pfd		333
	Grt. Northern Iron Ore Properties		2,632
	" " Ry. pfd	267,400	2,674
	Illinois Central R. R. Co	152,800	1,528
	" " " 4% leased lines ctfs	29,400	294
	Ingersoll, Rand Co. pfd	3,600	36
	Int. Harvester Corp. pfd		20
	" " Co. of N. J. pfd	12,000	120
	Int. Nickel Co. pfd		20
	Lehigh Valley R. R	3,000	60
	P. Lorrillard Co. pfd	4,200	42
	Louisville & Nashville R. R. Co	24,000	240
	Mackay Companies com		64
	" " " pfd		56
	Manhattan Ry. Co	3,000	30
	Minneapolis, St. Paul & S. S. Marie Ry. com	4,900	49
	" " " pfd	18,700	187
	Minneapolis, St. Paul & S. S. Marie Ry., Wisc. Central Ry., leased lines, pfd		942
	Minnesota & Ontario Power Co. pfd		195
	Mobile & Birmingham R. R. pfd		12
	Moline Plow Co. 1st pfd		2,776
	Montgomery Ward & Co. pfd	51,000	510
	Morris & Essex R. R	8,350	167
	Nat. Cloak & Suit Co. pfd		150
	New England Tel. & Tel		31
	N. Y. Central R. R. Co		3,893
			40,930
	Norfolk & Western R. R. common	196,200	1,962
	" " " adj. pfd	13,100	131
	Quaker Oats Co. com		1
	Northern Pacific Ry. Co	520,900	5,209
	North Pennsylvania R. R	8,000	160
	Pacific Gas & Electric 1st pfd		26
	Pennsylvania R. R	6,175,500	123,510
	" Co. com		110
	" " pfd		10
	Pitts. Ft. Wayne & Chi. Ry. guar. stock		643
	" Steel pfd		564
	Pullman Co		250

J. P. MORGAN & CO.—Continued

Type	Name of security	Face value	No. of shares
IX	GROUP 1—PERMANENT—STOCK—Continued		
	Quaker Oats Co. pfd	------------	27
	Railway Steel-Spring Co. pfd	------------	600
	Reading Co. com	$55, 600	1, 112
	" " 2nd pfd	7, 500	150
	St. Louis Bridge 1st pfd	8, 000	80
	" " " 2nd pfd	------------	20
	Southern Pacific Co. com	171, 300	1, 713
	" " " cert. of int	------------	2
	" Ry. Co. pfd	------------	5
	Studebaker Corp. pfd	35, 500	355
	Swift & Co	26, 100	261
	Terminal R. R. of St. Louis	15, 000	150
	Union Pacific R. R. com	952, 600	9, 526
	" " " pfd	62, 600	626
	United Fruit Co	------------	105
	" N. J. R. R. & Canal Co	------------	12
	U. S. Rubber 1st pfd	------------	33
	U. S. Smelting, Refining & Mining Co. pfd	------------	1, 245
	" " " " " " com	------------	75
	U. S. Steel Corp. com	979, 600	9, 796
	" " " pfd	349, 600	3, 496
	United Utilities Co. pfd	------------	50
	Utah Copper Co	------------	328
	Western Union Telegraph Co	62, 900	629
	Weyman-Bouton Co. pfd	------------	154
		------------	$203, 876

STANDARD SAFE DEPOSIT VAULTS

X	GROUP II.—PERMANENT SCHEME B—BONDS		
	Grand Trunk Ry. Co. of Canada, 4% perpetual deb. stock	£5, 840, 518	----------
	Grand Trunk Ry. Co. of Canada (Gr. Tr. borrowed cap.) deb. 5's	£967, 084	----------
	" " " " " " (Great West. borrowed cap.) per. deb. 5's	£564, 230	----------
	Egyptian Govt., unified debt. 4%, 1876	£1, 300	----------
	Republic of Cuba, ext. 5's, series A, 1944	$3, 000	----------
	Grand Trunk Pacific Ry. Co., 1st guar. sterling 3's, 1962	£3, 000	----------
	Canadian Northern, Alberta Ry. Co., deb. guar. 3½'s, 1960	£163, 246	----------
	Canadian Pacific Ry. Co. per. cons. deb. 4's, registered	£10,020,041	----------
	Canadian Pacific Ry. Co. 4% preference stock	£503, 709	----------
	Argentine Great Western Ry. deb. 5's	£1, 156, 813	----------
	Buenos Aires & Pacific Ry. Ltd., cons. deb. 4½'s	£2, 823, 208	----------
	Buenos Aires Great Southern Ry. Co., 4% deb. stock	£4, 968, 645	----------
	Central Argentine Ry. Co. Ltd., deb. 4% stock	£5, 320, 661	----------
		32, 335, 455	----------
	Value in dollars £ @ $5	$161,665,275	----------
XI	GROUP 2—PERMANENT—SCHEME A		
	Republic of Cuba, ext. 5's, series A, 1949	$50, 000	----------

J. P. MORGAN & CO. BRITISH GOVT. TREASURY ACCT.

XII	GROUP II.—PERM.		
	Republic of Cuba, ext. 5's, series A & B, 1944	$171, 500	----------
	" " " " 4½'s " C, 1949	460, 000	----------
	Argentine Govt. Treasury 6's, 1920	£200	----------
	" " internal 5's, 1945	£3, 880	----------
		635, 580	----------
	Value in dollars £ @ $5	651, 900	----------

J. P. MORGAN & CO. BRITISH GOVT. TREASURY ACCT.

XIII	GROUP I. PERM.		
	Dominion of Canada 4½'s%, 1925–45	$47, 000, 000	----------

BANKERS TRUST—BRITISH GOVERNMENT TREASURY ACCOUNT

Type	Name of security	Face value	No. of shares
XIV	GROUP II—PERMANENT		
	Republic of Cuba, external 5's series A & B, 1944	$35,000	----------
	" " " " 4½'s " C, 1949	8,000	----------
	Argentine Government Treasury 6's, 1920	£111,100	----------
	" " internal 5's, 1945	£3,000	----------
		157,000	----------
	Value in dollars (£ @ $5)	613,000	----------

J. P. MORGAN & CO. BRITISH TREASURY ACCOUNT

XV	GROUP I—PERMANENT		
	Atchison, Topeka & Santa Fe Ry. Co., Calif-Ariz. lines, 1st & ref. 4½'s, 1962	$12,000	----------
	Oregon-Washington R. R. & Navig. Co., 1st & ref. 4's, 1961	38,500	----------
	N. Y. Telephone Co., gen. mtg. 4½'s, 1939	252,000	----------
	Illinois Central R. R., Chi. St. L. & N. O., joint 5's, 1963, ser. "A"	30,000	----------
	N. Y., Penn. & Ohio R. R., reorg. P/L 4½'s, 1935	500	----------
	Union Pacific R. R. Co., 1st lien & ref. 4's, 2008	164,000	----------
		500,000	----------

STANDARD VAULT

XVI	GROUP I.—PERM.—SCHEME "A"		
	Chi. Mil. & St. Paul Ry. Co., conv. 4½'s, 1932	$557,600	----------
	Cleveland, Cinn., Chi. & St. Louis Ry. Co., Gen. Mtg. 4's, 1993	13,000	----------
	Illinois Central R. R. Co. & Chi., St. Louis & N. O. joint 1st ref. 5's, ser. A, 1963	38,000	----------
	Illinois Central R. R. Co. & Chi., St. Louis & N. O. joint 1st ref. 5's, ser. B, 1963	85,400	----------
	Rio Grande Junction Ry. Co., 1st 5's, 1939	60,000	----------
	Southern Pacific Co., Central Pacific stock collateral 4's, 1949	10,000	----------
	Western Pennsylvania R. R. Co. 4's, 1928	10,000	----------
	Atch. Top. & Santa Fe Ry. Co., adj. 4's, 1995	5,000	----------
	Ches. & Ohio Ry., 1st cons. 5's, 1939	53,000	----------
	City of N. Y. 3½'s, Nov. 1953	5,000	----------
	" " " " Nov. 1928	50,000	----------
	" " " 4's, May 1957	5,000	----------
	" " " 4½'s, May 1957	5,000	----------
	" " " 3's, Nov. 1924	5,000	----------
	Colorado & Southern Ry., ref. & ext. 4½'s, 1935	114,000	----------
	East Tenn., Virginia & Georgia Ry. Co., cons. 5's, 1956	48,000	----------
	Illinois Central R. R. Co. 4's, 1953	50,000	----------
	Lake Shore & Mich. So. Ry. deb. 4's, 1931	70,000	----------
	Mpls. & St. Louis R. R., 1st 5's, 1934	1,000	----------
	N. Y. Central & Hudson River R. R., deb. 4's, 1934	17,000	----------
	Delaware & Hudson Co., 1st & ref. 4's, 1943	25,000	----------
	N. Y. Telephone Co., 1st & general 4½'s, 1939	180,000	----------
	Phila. Co., conv. deb. 5's, 1922	70,000	----------
	Portland Ry. Co., 1st & ref. S/F 5's, 1930	6,000	----------
	Scioto Valley & New England, 1st 4's, 1989	13,000	----------
	Tennessee Power Co., 1st 5's, 1962	35,000	----------
	Virginia Ry. Co., 1st 5's, series A, 1962	5,000	----------
	American Can Co., deb. S/F 5's, 1928	17,000	----------
	Central Pacific Ry. Co., 1st ref. 4's, 1949	204,000	----------
	C. B. & Q. R. R. Co. 4's, 1922	1,000	----------
	Chi. Rys. Co., 1st 20-year 5's, 1927	92,000	----------
	Colorado & Southern Ry. Co., 1st 4's, 1929	13,000	----------
	Denver & Rio Grande R. R. Co., 1st ref. 5's, 1955	18,000	----------
	Hudson & Manhattan R. R. Co., 1st lien & ref. 5's, series "A", 1957	500,000	----------
	Liggett & Myers Tobacco Co., 5's, 1951	54,000	----------
	P. Lorillard Co. 5's, 1951	32,000	----------
	Milw. Elec. Ry. & Lt. Co., 30-yr. cons. 5's, 1926	40,000	----------
	Nashville, Florence & Sheffield Ry. Co., 1st 5's, 1937	11,000	----------
	N. Y. Gas, Elec. Lt. Ht. & Power Co., purchase money 4's, 1949	136,000	----------
	N. Y. Central R. R. Co., cons. 4's, series "A", 1998	136,000	----------
		2,860,000	----------
	N. Y. Central & H. R. R. R. Co. 3½'s, Lake Shore col., 1998	96,000	----------
	Northern Pacific Ry. Co., gen. lien ry. & land grant 3's, 2047	142,500	----------
	San Joaquin Lt. & Power Corp., 1st & ref. 5's, 1950	25,000	----------
	Chi. & Northwestern Ry., ext. 4's, 1926	21,000	----------
	Seaboard Air Line Ry. Co., adj. 5's, 1949	1,000,000	----------

STANDARD VAULT—Continued

Type	Name of security	Face value	No. of shares
XVI	GROUP 1—PERM.—SCHEME "A"—continued		
	Terminal R. R. Assoc. of St. Louis, con. 1st 5's, 1944	$48,000	....
	U. S. Steel Corp., 50-yr. 5's, series "B", 1951	15,000	....
	Washington Terminal Co., 1st 3½'s, 1945	25,000	....
	Am. Tel. & Tel. Co., conv. 4½'s, 1933	62,000	....
	Atch. Top. & Santa Fe Ry. Co., Cal.-Ariz. lines 4½'s "A", 1962	5,000	....
	Atlantic Coast Line R. R., 1st cons. 4's, 1952	26,000	....
	B. & O. R. R. Co., conv. 4½'s, 1933	74,000	....
	Ches. & O. Ry., genl. 4½'s, 1992	10,000	....
	Chi., Burl. & Quincy R. R. 4's, 1958	73,000	....
	City of N. Y. 4½'s, March 1962	15,000	....
	" " " 4½'s, " 1963	19,000	....
	" " " 6% revenue bonds, Sept. 1917	12,000	....
	G. E. Co. deb. 5's, 1952	2,000	....
	Long Island R. R. Co., ref. 4's, 1949	272,000	....
	Southern Pacific Co., conv. 4's, 1929	641,000	....
	Union Pacific R. R. Co., 1st lien & ref. 4's, 2008	120,500	....
	Lake Shore & Mich. So. Ry., deb. 4's, 1928	25,000	....
	Atch. & Top. & Santa Fe Ry. Co., gen. mtg. 4's, 1995	659,000	....
	B. & O. R. R. Co., 1st 4's, 1948	250,500	....
	City of N. Y. 3½'s, Oct. 1917	25,000	....
	Cleveland, Lorraine & Wheeling R. R. Co., 1st cons. 5's, 1933	2,000	....
	Detroit, Grand Haven & Milw. Ry. Co., cons. 6's, 1918	324,600	....
	Erie R. R. Co., conv. 4's, series "A", 1953	312,000	....
	Int. Merc. Marine Co., coll. Tr. 6's, 1941, temporary	17,100	....
	Liggett & Myers Tobacco Co. 7's, 1944	10,900	....
	P. Lorillard Co. 7's, 1944	8,050	....
	Manhattan Ry. Co., Cairo 4's, 1990	192,000	....
	Minnesota & Ontario Power Co., 1st 6's, 1922	40,500	....
	" " " " " 1923	57,500	....
	" " " " " 1927	20,500	....
	" " " " " 1928	23,500	....
	N. Y., Chi., & St. Louis Ry. Co., 1st 4's, 1937	106,000	....
	Norfolk & Western Ry., 1st cons. 4's, 1996	218,500	....
	St. Louis Bridge Co., 1st 7's, 1929	112,000	....
	" Louis, Iron Mt. & Southern Ry. Co., gen. cons. ry. land, Govt. 5's, 1931	8,000	....
	Southern Ry. Co., devl. & gen. mtg. 4% bonds, series A, 1956	7,000	....
	Southern Ry. Co., devl. & gen. mtg. 4% bonds, series A, ctfs. of deposit	143,000	....
	Seaboard Air Line Ry. Co., ref. 4's, 1959	999,000	....
	Terminal R. R. Assn. of St. Louis, 1st 4½'s, 1939	1,000	....
	Toledo & Ohio Ctl. Ry. Co., western div., 1st 5's, 1935	5,000	....
	West Va. & Pitts. R. R. Co., 1st 4's, 1990	96,000	....
	Pitts., Cinn., Chi. & St. Louis Ry., cons. 4½'s, ser. "A", 1940	25,000	....
		9,192,150	
	Alabama, Grt. Southern R. R., 1st 5's, 1927	25,000	....
	B. & O. R. R. Co., P/L 3½'s, 1925	31,000	....
	Bangor & Aroostock R. R., 1st 5's, 1943	10,000	....
	Brooklyn Rapid Transit Co. 5's, 1918	175,000	....
	Buffalo & Susquehanna R. R. Corp., 1st 4's, 1963	35,000	....
	Bush Terminal Co., 1st cons. 5's, 1955	25,000	....
	Ches. & Ohio Ry. (Richmond-Allegheny div., 1st cons. 4's, 1989)	6,000	....
	Chi. Milw. & St. Paul Ry., gen. 4's "A", 1989	25,000	....
	" " " " (Chi. & Miss. Riv. div.) 1st 5's, 1926	3,000	....
	" " " " Ry. (Wisc. & Minn. div.) 1st 5's, 1921	2,000	....
	Chi., Rock Island & Pacific Ry., gen. 4's, 1988	10,000	....
	City of N. Y. (public park bonds of the city of Brooklyn) 6's, Jan. 1924	3,000	....
	Cleveland, Cinn., Chi., Ohio & St. Louis, ref. co. deb. 4½'s, 1931	10,000	....
	Erie R. R. Co., gen. lien 4's, 1996	107,000	....
	" " " prior lien 4's, 1996	45,000	....
	Florida Central & Peninsular R. R., 1st 5's, 1918	25,000	....
	Hocking Valley Ry. Co., 1st cons. 4½'s, 1999	43,000	....
	Interborough Rapid Trans. Co., 1st & ref. 5's, 1966	27,000	....
	Kansas City Southern Ry., ref. & imp. 5's, 1950	128,000	....
	Louis. & Nash. R. R. Co., unif. 4's, 1940	98,000	....
	" " " N. Orleans & Mobile div., 1st 6's, 1930	23,000	....
	Mpls., St. Paul & S. S. Marie Ry. 4's, 1938	523,000	....
	" " " " " " " "	5,000	....
	Mpls., S. S. Marie & Atlantic Ry., 1st 4's, 1926	7,000	....
	Montana Power Co., 1st & rfd. S/F 5's "A", 1943	15,000	....
	Newark Passenger Ry., 1st cons. 5's, 1930	16,000	....
	N. Y. Central & Hudson R. R. R 3½'s, 1997	4,000	....
	Norfolk & Western Ry., div. 1st lien & gen. 4's, 1944	25,000	....
	Northern Pacific Ry. Co., prior lien 4's, 1997	706,000	....
	Pacific Tel. & Tel. Co. 1st coll. trust S/F 5's, 1937	5,000	....
	Penn. R. R. Co., cons. 3½'s, 1945	£10,000	....
	Penn. Water & Power Co., 1st S/F 5's, 1940	$5,000	....

STANDARD VAULT—Continued

Type	Name of security	Face value	No. of shares
XVI	GROUP 1—PERM.—SCHEME "A"—continued		
	Perkiomen R. R., 2nd series 5's, 1918	$6,000	
	Rio Grande Western Ry., 1st trust 4s', 1939	4,000	
	St. Louis & Cairo R. R. Co. 4's, 1931	2,000	
	St. Paul, Mpls. & Manitoba, cons. 4½'s, 1933	4,000	
	Reading Co. & The Phila. & Reading Coal & Iron Co., gen. 4's, 1997	56,000	
	Southern Pacific R. R. Co., 1st ref. 4's, 1955	8,000	
	Western Electric Co., 1st 5's, 1922	17,000	
	West Shore R. R. Co., 1st guar. 4's, 2361	20,000	
	Northern Pacific, Great Northern, C. B. & Q., col. joint 4's, 1921	4,000	
		11,490,150	
	Value in dollars (£ @ $5)	11,530,150	

J. P. MORGAN & CO.

Type	Name of security	Face value	No. of shares
XVI-A	GROUP 1—PERM.—BRITISH GOVERNMENT TREASURY ACCOUNT		
	Brooklyn Rapid Transit Co., 6 yr. 5's, gold notes, June 1918	$500,000	

STANDARD VAULT

Type	Name of security	Face value	No. of shares
XVII	GROUP 2—TEMP.—SCHEME "B"		
	Atch. Top. & S. F. Ry. Co. common	2,025	
	B. & O. R. R. Co. common	958	
	" " " pfd	554	
	Chi. Mil. & St. Paul Ry. Co. com	10,715	
	" " " " " " pfd	20,650	
	Eastman Kodak Co. common	234	
	Illinois Central R. R. Co. capital stock	170	
	N. Y. Central R. R. Co	400	
		35,706	
XVIII	GROUP 2—TEMP.—SCHEME "A"		
	Atch. Top. & S. F. Ry. Co. com	64,809	
	B. & O. R. R. Co. common	36,868	
	" " " pfd	15,930	
	Chi. & Northwestern Ry. common stock	12,678	
	" Mil. & St. Paul Ry. " "	23,549	
	Chi. Mil. & St. Paul Ry. pfd	16,478	
	Great Northern Ry. Co. pfd	150,000	
	Eastman Kodak Co. common	10,305	
	N. Y. Central R. R. Co	56,135	
	Illinois Central R. R. Co. capital stock	40,325	
		427,077	

BANKERS TRUST CO.

Type	Name of security	Face value	No. of shares
XIX	GR. 2—TEMPORARY—SCHEME "B"		
	Atch., Top. & S. F. common	560	
	B. & O. R. R. Co. common	162	
	" " " " " pfd	114	
	Chi., Mil. & St. Paul Ry. Co. common	507	
	" " " " " " " pfd	106	
	Illinois Central R. R. Co	1,231	
	N. Y. Central R. R. Co	494	
	Pennsylvania R. R. Co	7,920	
		11,094	
XX	GROUP II—PERM.—SCHEME "B" BONDS		
	Argentine Govt., internal 5's, 1945	£24,000	
	Egyptian Govt. 3's, guar. bonds	£50,000	
		74,000	
	Value in dollars (£ @ $5)	370,000	

NATIONAL BANK OF COMMERCE IN N. Y.

Type	Name of security	Face value	No. of shares
XXI	GR. 2—TEMP.—SCHEME "A" STOCK		
	Atch., Top. & S. F. Ry. Co. com	1,121	----------
	B. & O. R. R. Co. com	373	----------
	B. & O. R. R. Co. pfd	220	----------
	Chi., Mil. & St. Paul Ry. Co. com	546	----------
	“ “ “ “ “ “ pfd	60	----------
	Eastman Kodak Co. com	647	----------
	Illinois Central R. R. Co. com	752	----------
	N. Y. Central R. R. Co	863	----------
		4,582	----------
XXII	GR. 2—PERM.—SCHEME "B" BONDS		
	Imperial Japanese 4's, sterling loan, 1899	£30,000	----------
	Dollar value	150,000	----------

LIBERTY NAT. BANK

Type	Name of security	Face value	No. of shares
XXIII	GROUP 2—TEMP.—SCHEME "B" STOCKS		
	Atch., Top. & S. F. Ry. Co. common	245	----------
	B. & O. R. R. Co. common	340	----------
	“ “ “ pfd	402	----------
	Chi., Mil. & St. Paul Ry. Co. com	628	----------
	“ “ “ “ “ “ pfd	50	----------
	Eastman Kodak Co. com	432	----------
	Illinois Central R. R. Co. capital stock	356	----------
	N. Y. Central R. R. Co. capital stock	403	----------
	Penn. R. R. Co. capital stock	4,520	----------
		7,376	----------
XXIV	GROUP 2—TEMP.—SCHEME "A" STOCKS		
	Illinois Central R. R. capital stock	$600	----------

STANDARD VAULT

Type	Name of security	Face value	No. of shares
XXV	GROUP 2—TEMP.—SCHEME "A" STOCKS		
	Pennsylvania R. R. Co. stock	4,500	----------
XXVI	GROUP 1—PERM.—SCHEME "A" BONDS		
	Atch., Top. & S. F. Ry. Co., general 4's, 1995	$600,000	----------
	Chi., Rock Island & Pacific Ry. Co., 1st & pfd. 4's, 1934, ctfs. of deposit	569,000	----------
	Chi., Rock Island & Pacific Ry. Co., 1st & pfd. 4's, 1934, ctfs. of deposit	612,000	----------
		1,781,000	----------

EXHIBIT No. 2692

[Extract from "Henry P. Davison", by Thomas W. Lamont, 1933 edition]

Page 187: After the war was well over, the cry began to be raised that American bankers had dragged the United States Government into the conflict in order, as it was often put, "to make good their foreign loans." Of course, any such charge was so absurd and unwarranted as to be ridiculous. The total amount of unsecured loans issued in America by the British and French Governments and outstanding at the time America entered the war, did not exceed $500,000,000, and there never could have been any valid doubt of their goodness. At the time of their issue they had been widely distributed throughout the American investment community, and were not—contrary to common belief—held in bulk by bankers.

EXHIBIT No. 2693

L/R.

PARIS, *5th Jany., 1916.*

DEAR JACK: Since my letter of the 3rd inst., I had to see Mr. Ribot last evening in regard to Chicago, Milwaukee & St. Pauls and other American bonds now being repurchased here.

We had quite a lengthy talk and generally went over the present situation of French requirements in the United States.

The Minister spoke with regret of the attitude of the American public towards the obligations of his as well as of the British Government, and how unfortunate it was that Americans had such a poor opinion of France's capacity to meet the present crisis, as evidenced by their indisposition to loan money except against American collateral, which could be done in England, but which, so to speak, did not exist in this country.

He spoke of having received a letter from Mr. Homberg reporting this unsatisfactory atmosphere, and in which Homberg mentioned his endeavors to raise a loan of $60,000,000 for the railroads here, which Davison was not in favor of. The Minister added that he was not himself well disposed towards such a loan, as the banks were now much disinclined to increasing their liabilities indefinitely by further drawings, and besides he did not know whether the railroads needed as much money now.

All of this led to my telling him that I had written you to find out if there might not be a new method of raising money, and we roughly went over what I wrote you in my letter of the 3rd.

He told me that he was entirely in accord with the principle of such a plan; in fact, that he had thought at the time when the Anglo-French Loan was issued in America that it might have been better if these bonds could have been taken up by a company formed of a consortium of the highest banking interests in America, who would have issued their own securities thereagainst. He asked me what I thought the capital of such a company ought to be. I told him that I had not given it enough thought, but that it would no doubt have to be sufficient to represent the margin for the collateral taken up.

He said that he believed it would be possible to get a consortium of the prime banks here to put up a proportion of the capital required, and asked me what proportion I thought the French interests should furnish. He further said that, for instance, if such an institution could be created to raise, for example, frs. 1,500,000,000 for the Government, that he would be prepared to examine the question, and felt favorably disposed towards the idea of depositing as collateral one-third of the amount in gold "à l'étranger", one-third in Government securities, and possibly one-third in French Railway bonds.

His idea, as I understood it, was, in other words, that such an institution might act both for Government requirements, receiving a certain kind of collateral for that, and also for industrial and commercial needs, such as the Creusot, etc., when the institution could receive other collateral.

As you already know, the question of finding here genuine American securities to put up as collateral is fraught with very many difficulties and perhaps impossible; but on the other hand, there is no doubt one could put into such a company as collateral a lot of securities which represent real intrinsic values of the highest grade, such, for instance, as the Rio Tinto shares, South American securities, and other nonbelligerent securities or, at least, not directly affectable by the war.

I am writing you this letter very much in a hurry and fear that it is not as explicit as it should be, but I cannot help but think that the subject is really worthy of very close examination; and I should be greatly obliged if, after you have had the time to think it over, you could cable me your views generally.

Another feature which particularly appeals to me in this proposition is that, in order not to burden the French banks who would subscribe in dollars to the capital of such an American company with the present high rate of exchange, which might mean a loss to them subsequently, it could probably be arranged that they be allowed to ship gold to pay for the investment, and that therein we could find a means of satisfactorily settling our "A" account.

With kind regards, believe me,

Yours very sincerely,

H. H. HARJES.

J. PIERPONT MORGAN, Esq.,
New York.

(In ink:) P. S.—I asked Mr. Ribot not to put Homberg wise on this matter till I had had a chance to hear from you, this in view of Homberg's expressed desire to handle all such matters exclusively and directly himself, which would greatly complicate matters now. I do not know whether Mr. R. will do as I suggested, but I hope so, & anyway, for the time being, I would leave him—Mr. Homberg—out of these negotiations, as he will only mix up all the cards.

H.

EXHIBIT No. 2694

46a

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Feb. 3, 1916.

[Copy of telegram despatched 10 p. m. to Min. Fin. Harjes, Paris]

11882. 16496. Referring to your letters January 2d and January 5th, our thoughts, which are only tentative, are about as follows:

We might organize American corporation, president of which would be, perhaps, Robert Bacon, and on board of which would sit representatives of our firm, Brown Bros. & Co., and leading financial institutions in U. S. A., capital of such corporation to be $15,000,000. "A" stock to be subscribed by U. S. A., and $15,000,000 "B" stock to be subscribed by France; "A" stock to be, in effect, a preference stock. Such corporation to lend to France for 3 years, say, $215,000,000, to be secured by approved Government bonds of nonbelligerents, with 20% margin. Such corporation to issue its own debentures to amount of $185,000,000, secured by these same bonds, with 25% margin, balance of bonds and obligation of French Government to remain in treasury of corporation. We would hope that the entire cost of such an operation to French Government would not exceed 7½% per annum, and possibly might be below 7¼%. This cost would include the actual interest paid plus proper compensation to American corporation, plus proper brokerage to our group here and to yourself, plus actual expenses; but as we say, above total we hope would come within the per-annum rate mentioned.

If this could be accomplished, we think it would be a very handsome thing for French Government. Our difficulty would appear to be not so much the total interest cost to France as the form in which we could cast the operation so as to pass muster politically over there. For instance, in order to organize such a corporation here and have it subscribed by the right people, we must make the undertaking attractive. The unfortunate part of our suggestion is, that the profit to the corporation would be figured upon the relatively small capitalization, compared with the loan furnished by our group, and sight is apt to be lost of the fact that the corporation is but the medium through which an enormous and most difficult task is undertaken in which we and associates lend our names and energies. Therefore, all thought should be upon the loan and not upon methods. In the Anglo-French loan, 1915, operation, there has been less than no profit, and now the large financial groups here have reached the point where they will take no further steps unless they are assured of reasonable profits.

The French stockholders would receive the rate of interest which the corporation found it necessary to pay upon their debentures. From our point of view, French Government ought not to object to this latter, for the reason that it would be taken out of one pocket and go into another, and Government's subscription would be made solely for the purpose of showing American group confidence in the whole plan, this being a necessity. Of course, if French holders were private institutions, as you suggest in your letter, they would not be satisfied with this arrangement. We are, however, at a loss to suggest any other, and we must again point out the extreme difficulty of such an operation, even at best.

Off and on, ever since receipt of your letters, and especially during the last week, we have given practically entire time of firm up to Jack's sailing last night, to consideration of your suggestions—have canvassed situation discreetly in all important directions, and plan outlined above is only one we can devise by which large credit can be secured.

If Goverment were able simply to consider the one question as to whether they were securing at a fair rate of interest what they require, and could disregard, in a way, figuring on the American end, it would greatly facilitate the operation. Another way of expressing terms is that French Government would pay all costs of operation and a commission to corporation of 1% per annum on loan from them, distributable to class A stock, and ¼% per annum to Brown Bros. & Co. and ourselves for division with you and our associates.

Before sending foregoing we have conferred with Homberg, stating our embarrassment in not keeping you posted, whereupon he consented cheerfully to our giving you information for yourselves only, but again pointed out the embarrassment which would result if you were to use this information with Ribot, French Min. of Finance, to whom he has not yet communicated, as he wishes to discuss the matter with us further before doing so. We assured him that our purpose was merely to keep you informed, and that he need have no question about your in any way interfering with his conducting negotiations. We are glad to inform you of foregoing, as in due course, if approached by Ribot, you will be posted and can point out to him the various advantages of the proposition, but will, of course, say nothing to him until he has first approached you after having learned the terms and conditions proposed from Homberg.

MORGAN.

EXHIBIT NO. 2695

46a

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Feb. 8, 1916.

[Copy of telegram despatched 10 p. m. to Ministere des Finances pour Harjes, Paris]

11919. 11882. Strictly confidential and for your information only. We have had long discussion with Homberg this afternoon and have made tentative suggestion to him along following lines which he proposes to submit to Ribot, and will also submit our suggestion 11882. We to organize an American corporation with $25,000,000 all American capital, corporation to lend French Government francs in Paris to an amount in francs equivalent to $100,000,000 firm before underwriting sought here or alternative francs equivalent to $200,000,000 firm after underwriting secured here. Rate to be determined later. Proceeds to be placed to the credit of the French Government in New York City at approximately current rate of exchange of the day, say, francs 5.90. All expenses of the corporation to be paid by it, including interest and commission necessary in placing American debentures, except commission of 1%, which is to be paid by French Government to our group for division as per our 11882.

Loan to be three years and to be paid in Paris in francs. Simultaneously, separate contract to be made by French Government with Bank de France and guaranteed to us by French Government that at maturity of loan Bank de France will furnish dollars in New York City for payment of loan at rate of exchange, say, approximately 5.55. For your information, this would be equivalent to 6% profit on the loan for the three years, or at the rate of 2% per annum which would go to the American corporation as profit out of which the above expenses will be paid.

To summarize net proposition is we furnish the capital $25,000,000, we pay all expenses, we expect to loan them $200,000,000 at fixed rate of interest, they are to pay us 1% upon the amount of the loan as banker commission and we make six points profit in the exchange situation. This meets objection of Homberg: First, obviates the necessity of French capital; second, makes firm commitment; third, avoids embarrasment of commission for corporation, same being found in the exchange.

We believe foregoing sound and feasible. You understand terms regarding collateral and so forth are practically as per our 11882. We believe also that undertaking of Bank de France to place dollars in New York City at 5.55 three years hence is reasonable because prospect of normal exchange at that time and their power to ship gold if exchange is not normal will show a profit to them on the exchange transaction.

MORGAN.

HPD

EXHIBIT No. 2696

461/246

J. P. MORGAN & Co.,
Export Department,
New York, Feb. 21, 1916.

[Copy of telegram received from Morgan, Ministere Finances, Paris]

16646. Had long conversation with Ribot who read e telegrams and letters from Homberg. *Net result is:*

Ribot agrees to general principle that corporations should be formed of United States capital only. He does not wish enter into the exchange transactions indicated in your 11919, prefers sugegstion that all [underwriting] commissions and expenses should be settled at first on commission basis. Feels also that return to corporation of 1% per annum on total amount borrowed which he figures would pay them dividend of certainly not less than 16% if $200,000,000 loan is higher than should be required. You must remember that although total expenses would not make rate above 7½% in United States he [will] in addition have to pay probably up to 1½% per annum to holders of securities here in order to borrow them. This will make his whole loan cost him approximately 9%, which he does not believe he ought to face. If you do not think it possible to reduce the profits of the corporation materially so that dividends shall not be out of the ordinary, I believe he will decide not to deal with us any further. I know you will go as far in this direction as you can in your desire to help French Government in its difficult task. Whether he can find others to deal with or not I do not know; but, of course, he is dealing perfectly loyally with us until he has made up his mind whether to proceed or not. Cable your answer as soon as possible as must return to London Wednesday and I should like to have another interview with him on Wednesday morning.—J. P. MORGAN.

MORGAN, *Ministere Finances.*

NOTE.—Pencil notations enclosed in brackets.

EXHIBIT No. 2697

46a

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Feb. 25, '16.

[Copy of telegram despatched 11 p. m. to Ministere des Finances pour Harjes, Paris]

12102. 16662. After two days of continuous thought and confidential conference with our best authorities this subject, we have arrived at following conclusions:

Subject to conditions named hereafter, we would endeavor to form a corporation with all American capital to purchase from the French Government their 3-year 5% obligations, on a 7½% basis, net to them an amount approximating $100,000,000. This loan to be secured by collateral to be satisfactory to and approved by us, it being our understanding that its general character would be Government bonds of nonbelligerents, of which the Argentine Gov't. issue would constitute at least one-quarter. The Government to put up a margin of 20% of same security, collateral and margin to be based upon the market value in Paris calculated in dollars at approximately the current rate of exchange at the time of execution of contract, bonds to be delivered in New York City free of expense to the corporation, with power or rehypothecation, the Government contracting to keep the margin good, interest on the nominal amount of the loan at 5% per annum, to be payable semiannually in New York City. Corporation to have option of converting any or all of said obligations into a like amount, par for par, of French Government 20-year 5% dollar bonds.

The net of the foregoing is that if the French Government were prepared to accept the proposition, having collateral in hand, we are confident we could make now firm bid on foregoing basis. You will appreciate it would be but harmful if we were to proceed further to the point of securing an underwriting, in view of the necessary delay in the securing of the collateral. It is our idea to convey to you the belief that if these terms are generally acceptable and if conditions then prevailing are about the same as now, we will be able at the time of concluding the contract to make a firm commitment along these general lines, always having regard for the interests of our client to the extent that conditions at the time of execution of contract might permit, but of course we cannot now commit ourselves to do so for such a period in future.

All are agreed that $100,000,000 is the maximum amount it would be safe to undertake at this time, and that if $200,000,000 is desired we should first undertake the $100,000,000, hoping the success of the undertaking would make it possible to repeat the operation.

We have had constantly in mind the political exigencies of the French Government as repeatedly emphasized by you and as again recently urged by J. P. Morgan, but we cannot change conditions as they exist in America today. Recent developments of our administration's controversy with Germany are making our investors more wary even than before. Further, for your private information, Dominion of Canada is pressing here for $100,000,000 loan, likewise Russia for same amount, being in active negotiation with strong group here for credit, cost of which in this market to Imperial Russian Government will be not less than 9%.

In view of all these conditions and of known cost to British Treasury in the mobilization and sale of American securities, we consider proposed cost to French Republic as highly creditable to it. It is best that we can arrange, and we would point out that owing to these other two large pending negotiations, it would be wise for French Government to come to prompt decision.

MORGAN.

HPD.

EXHIBIT No. 2698

46A

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, June 28, 1916.

[Copy of telegram despatched 11 p. m. to Min. des Finances pour Harjes, Paris]

13307. For H. H. Harjes. Confidential. Financial situation, with Mexican trouble looming up, becoming uncertain; therefore, it is of the utmost importance to French Government's interests to rush shipment of total amount securities necessary for loan. Every measure for this end should be undertaken, and no stone should be left unturned to impress situation upon officials. Allow us to make situation clear. We and a few immediate associates can probably advance to France from week to week what her moderate requirements may be against collateral in transit or in your hands—see 13297 "second", but, of course, these advances would not be comparable in amount to proposed large loan.

Impossible for American corporation to issue its collateral debentures in part, and difficult until securities are lodged here to enable trustee to certify as to same.

Syndicate which we must form in order to underwrite sale of these notes will not in these troubled financial times, before alluded to, undertake commitment unless with possibility of offering to public immediately thereafter. This is reason why it is essential for French Government's interests to rush total shipment.

From our point of view, it would be advisable to take most unusual measures if necessary, such, for instance, as the despatch of two warships to Canada carrying the securities, with branch of Treasury Department established on board to enable counting and tabulating en route, and thus save perhaps 10 days' time. If this work of tabulating securities and landing herein New York via Canada is long delayed financial situation may become such as to make operation most difficult. You will remember that we have right along maintained that operation could be successfully put through unless greatly changed conditions arose.

This possible war with Mexico, and likelihood of United States Government issuing loans on its own account, may bring about radically changed conditions; therefore, we urge all haste for completion of operation.

We hesitate to burden you with this matter, but are concerned lest we are unable to make ourselves entirely clear to Homberg, his thought, perhaps, being that we are trying to introduce some new element into the situation, whereas we are merely endeavoring to point out for the benefit of your friends advisability for haste in shipment.

Please handle this matter with the utmost discretion.

MORGAN.

TWL.

EXHIBIT NO. 2699

4–AK

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, July 17, '16.

[Copy of telegram despatched 12 Mid. to Morgan, London]

23206. For E. C. Grenfell. 20370. For your information, the underwriting syndicate for the $94,500,000 3-yr. 5% notes of American Foreign Securities Co. completed today. We expect to make wide public offering of notes on Wednesday, price to public 98, syndicate underwriting at 96, selling commission and other expenses to be paid by syndicate. American Foreign Securities Co. loans $100,000,000 to French Government at 7¼% per annum, although Government had agreed to pay 7½% if necessary. Newspaper comments on loan have been favorable, and we now anticipate successful issue, although flurry in money here last week gave us some concern. All last week we made very free offerings, both of call and time money, which materially tended to quiet fears of lenders. Your gold shipments, of course, also had a pronounced effect. Until effect of French note offering upon money conditions and reception of notes by investing public is known, we hesitate to express opinion as to proper time for similar operation for your account. We will, however, watch situation closely and keep you posted this point. We have been giving much thought to methods for handling British Government situation and, in view of Government's desire for greatest possible expedition, have following to suggest as best immediate step: That we quietly organize corporation, say, of $10,000,000 capital, officers and personnel to be from within our own office, stock to be closely held with First National Bank and National City Bank, N. Y., participating. In due course, perhaps almost immediately, this corporation would appear in market to borrow money as any other borrower, it loaning British Government not only its capital, but such sums as it would borrow upon such securities of British Gov't in our possession as we deemed wise, the corporation to rehypothecate these securities for such loans as it might make either on demand or on three, six, nine months or longer, the collateral to be deposited with the lending institutions or with their correspondents in New York City if loans made by out-of-town institutions, as is universal custom in the Street. For this service corporation would make a proper charge. By this means we would hope to borrow and continue borrowing by renewals a considerable amount, perhaps, $200,000,000, and we would hope that matter could be so handled that it would not conflict with formation of other corporations and offerings as per our 21457. In any event, this would, we believe, enable us to move at once and relieve situation and give us time for formal operations. Proposed corporations also should be of continuing advantage in filling the gaps between the formal operations and would be designed to be of advantage to you in the conditions as they develop. We would expect the corporation to so arrange loans as from time to time to permit of substitutions which would allow us a freedom of action in making sales of the pledged securities or in carrying out formal operations. You appreciate that if our proposed plan of organization and personnel is carried out it is substantially equivalent to our lending our own credit to plan, which under the circumstances, we are very willing to do in the manner indicated. While we, with our immediate associates, have been able to lend an aggregate in excess of $150,000,000 without special comment, we ourselves at one time were obliged to advance in excess of $80,000,000 and had almost reached the limit of prudence in view of the possibility that some of our associates might have found it necessary to call more or less of their participations for their regular customers. Please consider and cable us at once if authorities approve in principle, in order that we may immediately take steps, after which we would hope to act upon the formal offerings as soon as practicable along some such lines as suggested 21457.

MORGAN.

DWM.

EXHIBIT 2700

AMERICAN FOREIGN SECURITIES COMPANY THREE-YEAR 5% COLLATERAL GOLD NOTES—SYNDICATE AGREEMENT JULY 17, 1916—J. P. MORGAN & CO., BROWN BROTHERS & CO., SYNDICATE MANAGERS

An agreement, made the 17th day of July 1916 by and between—

J. P. Morgan & Co. and Brown Brothers & Co., each a copartnership (hereinafter called the syndicate managers), parties of the first part, and

The subscribers hereto (hereinafter called, severally, the subscribers, and, collectively, the syndicate), severally, parties of the second part:

Whereas a corporation, bearing the corporate title, American Foreign Securities Company, hereinafter termed "the Corporation", has been or is about to be organized under the laws of the State of Delaware, with a capital stock of $10,000,000; and J. P. Morgan & Co. and Brown Brothers & Co. have negotiated, conducted, and completed arrangements for the making by such corporation of a loan of $100,000,000 to the Government of the French Republic, and as compensation for their services in the premises are to receive from the corporation one-half of one percent (½%) of the principal amount of the loan; and

Whereas the corporation is to issue $94,500,000 principal amount of its three-year 5% collateral gold notes dated August 1, 1916, bearing interest at the rate of 5% per annum, payable semiannually, and maturing August 1, 1919, but subject to redemption on February 1, 1917, at 101½% and interest; or on August 1, 1917, or February 1, 1918, at 101% and interest; or on August 1, 1918, or February 1, 1919, at 100½% and interest; and

Whereas the syndicate formed upon the terms of this agreement is to empower the syndicate managers to purchase the said notes of the corporation at the price of 96 percent of the principal amount and any accrued interest; and

Whereas the syndicate managers are to manage the syndicate, and in behalf of the syndicate are to offer for sale the notes so purchased by the syndicate at the price of 98 percent of the face value of principal and any accrued interest, or at such other price or prices as in the exercise of their unlimited discretion from time to time they shall deem expedient:

Now therefore, in consideration of the premises, and of the mutual promises herein contained, the bankers and the syndicate mutually have agreed and do agree as follows:

First. The subscribers hereby authorize and empower the syndicate managers in behalf of the syndicate to purchase from the corporation, at the price hereinabove stated, the $94,500,000 principal amount of the three-year 5% collateral gold notes of the corporation hereinabove described. For the purpose of providing the syndicate managers with moneys to make payment of the said purchase price of the said notes, and for the other purposes of the syndicate, the subscribers, according to the respective amounts of their several subscriptions hereto as hereinafter provided, severally agree to pay to the syndicate managers 98 percent (98%) of the principal amount of said notes and any accrued interest, so much of said payment as is not required for the purchase of said notes or the other purposes of the syndicate to be distributed as hereinafter provided.

On subscribing to this agreement each subscriber shall indicate opposite his name the principal amount of the notes for and on account of which said subscriber is or shall be bound to make payment at 98 percent, and any accrued interest as aforesaid. Each subscriber agrees that from time to time, and at any time on or after this date, he will make payment to the syndicate managers at the said rate for and on account of such amount of notes so indicated in his subscription, when and as called for by the syndicate managers, and without reference to the receipt or the possession by the syndicate managers or by the subscribers of any of the said notes. The term "notes", whenever used herein, shall be deemed to include receipts and certificates issued for payments on account of the purchase price of such notes.

Second. The several subscribers shall be called upon to make such payments of cash, in respect of their several subscriptions, only ratably according to the several amounts thereof; but to the full extent of his several undertaking, each subscriber shall be so responsible, regardless of performance or nonperformance by any other subscriber.

In the same proportion, except as otherwise herein provided, each subscriber shall be entitled to share in the benefits, and shall bear any loss resulting to the syndicate under this agreement.

Nothing herein contained shall constitute the parties hereto partners, or shall render any one of the subscribers liable to contribute more than the amount of his several subscription.

Third. The syndicate managers may issue to the several subscribers suitable receipts in respect of moneys paid or advanced hereunder, or certificates of interest of such tenor and form as they may deem suitable. Such certificates of interest and all rights and obligations hereunder of the respective subscribers may be made transferable in such manner and on such terms and conditions as the syndicate managers may prescribe; but no transfer hereunder shall be valid unless assented to in writing by the syndicate managers; and, unless otherwise expressly provided in such assent, the transferrer shall continue to be liable for the payment of the unpaid part of the transferred subscription until the same shall be fully paid.

Fourth. In case of the failure of any subscriber or of his transferee to perform any of his undertakings hereunder as and when called upon by them, the syndicate managers, in behalf of themselves and the syndicate, shall have, and at their sole and exclusive option they may exercise, the right to exclude such subscriber or his transferee from all interest in or under the syndicate; and in their discretion, without any proceedings either at law or in equity, in such manner and on such terms as they shall deem expedient, and without demand or notice, they may, at public or private sale, dispose of such participation or of any interest or right of such subscriber or of his transferee hereunder, and thereupon all interest and right of such defaulting subscriber or his transferee hereunder shall cease and determine. At any public sale under this article of any interest or right of any subscriber or his transferee, the syndicate managers, or any party hereto, may become purchaser for their, or for his own benefit, without accountability, except for the purchase price. Notwithstanding any sale, whether public or private, the defaulting subscriber shall be responsible to the syndicate managers for the benefit of the syndicate for all damages resulting from any such failure on his part not exceeding the amount unpaid on his subscription hereto with lawful interest.

Fifth. The syndicate managers shall have full power, in their discretion, from time to time in behalf of the syndicate, to agree with the corporation upon the terms of, and to perform and fulfill, the note purchase from the corporation above referred to, and also from time to time to enter into any agreements with the corporation modifying such transaction as they may deem expedient. Any and all contracts with the company made by the syndicate managers shall be open to inspection by any subscriber at the office of the syndicate managers.

Sixth. The syndicate managers shall be the managers of the syndicate, and in behalf of the syndicate they may make any and all arrangements, and may perform any and all acts, even though not herein provided for, that in the exercise of their unrestricted discretion they shall deem to be expedient in order to consummate the purposes of this agreement, or to promote or to protect the interests of the syndicate.

The enumeration of specific powers in any article of this agreement shall not be construed as in any way abridging the general powers by this article intended to be conferred upon or reserved to the syndicate managers.

Seventh. The syndicate managers shall have authority from time to time and at any time to incur such expenses as they may deem proper in carrying out, or in endeavoring to carry out, this agreement or in doing any act or thing which they may deem to be in the interest of the syndicate, or necessary or proper in discharge of any of its obligations; and all such expenses shall constitute and shall be a prior charge in their favor upon any and all moneys, notes, and property by them received and then held hereunder. Any and all moneys by them received hereunder for account of the syndicate shall be held by them or either of them as syndicate managers in general account. They also shall have power and authority finally to fix and to pay all compensations of depositaries, brokers, agents, and counsel, or others, and in the expense account may be included such commissions to brokers and others (whether or not parties to this agreement) as compensation for services rendered, as the syndicate managers from time to time may have determined and have paid or have become obligated to pay.

Eighth. The syndicate managers shall have full power as in the exercise of their unrestricted discretion they shall deem to be for the interest of the syndicate, from time to time, in such manner, upon such terms and for such prices as they shall deem expedient, to sell any and all notes or property that shall be subject to this agreement.

In case of any such sale or acquisition, the results thereof shall become and shall be subject to this agreement; and as administered, used, and finally distributed by the syndicate managers under the provisions of this agreement, the same shall be accepted by the syndicate in full and final discharge of any and all obligation and liability of the syndicate managers hereunder.

Until the termination of the syndicate, the syndicate managers, in such manner, at such prices, on such terms, and in such amounts as they may deem expedient, shall have power, for account of the syndicate, to make purchases of any notes of the issue which are the subject of this agreement, and they may resell any such notes which they may have purchased; and, in their discretion, they may make any further undertakings of any kind with any persons concerning any such notes. They may apply toward any such purchases any sums realized from any sales of any such notes under any provision of this agreement; and they may make advances, or may procure loans, and may secure the same to such amounts and in such manner as from time to time they may deem expedient for any of the purposes of this agreement.

The rights and the powers of the syndicate managers and the interests of the subscribers hereunder severally and respectively shall continue until the final distribution hereunder. Prior to the date of such final distribution, no death of any person or subscriber, or of any member of any partnership subscriber, nor any dissolution or termination of any corporate subscriber, shall dissolve the syndicate or shall terminate the rights of the powers of the syndicate managers in respect of any interest of any subscriber then living or dead or ceasing to exist, or shall entitle any subscriber then surviving or the representatives of any subscriber then deceased or ceasing to exist, to demand any dissolution, distribution, or accounting, or to withdraw any interest hereunder; this stipulation constituting an essential part of the consideration for this agreement.

Ninth. No subscriber shall be entitled before the termination of the syndicate to receive any of the said notes or other securities or the proceeds thereof, subject to this agreement. In the meantime, in their discretion, the syndicate managers either themselves may retain all or any of such notes or other securities, or they may deliver to any subscriber his proportionate part thereof, upon his agrement to hold the same subject to sale by the syndicate managers, and to return the same upon the call of the syndicate managers at any time before the termination of the syndicate.

Tenth. The syndicate managers shall be the sole and final judges as to whether at any time it is to the interest of the syndicate to proceed further under this agreement, and whenever they may deem expedient, they may abandon the objects contemplated by this agreement and all further proceedings thereunder. In such event, any and all notes and any and all cash, securities, or other proceeds of the notes, by them received and then held for account of the syndicate, shall remain charged with the payment of all expenses and liabilities by the syndicate managers incurred for the purposes herein indicated, and shall be applied:

First, to the payment and discharge of any and all expenses and all liabilities incurred by the syndicate managers for any purpose indicated in this agreement;

Secondly, to the payment to the subscribers of all amounts of such securities or of cash held by the syndicate managers subject to this agreement, such payment to be made to the subscribers ratably.

Eleventh. After the complete performance of the entire obligation of the syndicate hereunder, but not before the 20th day of August 1916, unless otherwise determined by the syndicate managers in the exercise of their unrestricted discretion, the syndicate shall be entitled to receive the notes, or proceeds thereof, then held by the syndicate managers under this agreement, and including the net profits of the purchase, use, sale, and disposition of the notes that shall be or become the subject of this agreement.

The syndicate managers will make no charge for their services in forming and in managing the syndicate hereunder; but they and each of them shall be entitled to retain for their own account any benefits accruing to them under any contract by them made with the corporation.

Twelfth. The syndicate managers shall not be liable under any of the provisions of this agreement nor for any matter therewith connected, except for good faith in performing, or in refraining from performing or carrying out, the obligations by them herein expressly assumed; the implication of any obligations not herein expressly assumed by them being hereby expressly denied and waived. The syndicate managers shall be under no responsibility in respect of the form or validity of the said notes or of any receipts or certificates, nor for the delivery of definitive notes by the corporation in exchange for temporary notes or any receipts or certificates which may be issued for payments on account of the notes, nor for the performance of any agreement contained in any such receipts or certificates.

It is understood that, in the same manner as other subscribers, either of the syndicate managers may become subscribers hereto; that as such subscribers they shall be liable for all subscriptions by them made, respectively; and that in all respects they shall be entitled to the same rights and benefits as any other subscriber.

Any subscriber hereto, on his own account, may make any agreement with any other subscriber or with any other person, syndicate, or corporation, *subject, however,* to such restriction as may be prescribed by the syndicate managers; and any subscriber, including the syndicate managers, for himself or themselves, and without accountability to the syndicate or any other subscriber, may become and be interested in any other syndicate or association for the purchase or the sale of any securities covered by this agreement or for dealings therein.

Thirteenth. This agreement shall bind, and is for the benefit of, the parties hereto, and their successors, executors, and administrators, severally and respectively.

All rights and powers hereunder of J. P. Morgan & Co., or of Brown Brothers & Co., shall vest in the copartnership or firm doing business under such name, and without further act or assignment shall pass to and vest in the successors of such firm as from time to time constituted, doing business as such successor.

Either of the parties of the first part may delegate to the other any of the powers and authority of the syndicate managers under this agreement.

Fourteenth. Nothing herein contained shall be construed as creating any trust or obligation whatsoever in favor of any person or corporation other than the syndicate managers and the subscribers, nor any obligation in favor of the subscribers, excepting only as herein expressly provided.

Fifteenth. Each subscriber shall set opposite his subscription hereunder an address, to which notices, calls, or other communications may be sent, and any notice, call, or other communication addressed to any subscriber at the address so given, and either left at such address or mailed thereto, shall be deemed actually given to such subscriber, and shall be sufficient for all the purposes hereof. If any subscriber shall fail so to furnish his address to the syndicate managers, he shall not be entitled to any notice of calls, or offers, or any other notice hereunder, except upon request at the office of the syndicate managers, and he shall be deemed to assent to any action of the syndicate managers.

Sixteenth. In consideration of the irrevocable rights in them vested hereunder, and the promises of the several subscribers, the syndicate managers have become parties to, and in good faith will endeavor to consummate the purposes of, this agreement.

In witness whereof, the parties of the first part have hereunto affixed their signatures, and the parties of the second part at various dates have affixed their subscriptions hereto, it being understood that for convenience this agreement may be subscribed in several parts and copies with like force and effect as though all the subscriptions were upon one part or copy thereof.

Name	Address	Subscription in notes (principal amount)
		$

Exhibit No. 2700-A

J. P. Morgan & Co.—Summary of "American Foreign Securities Co. 3-Yr. 5% Notes Syndicate"

Sales to subscribers:			
Aug. 1, 1916	Proceeds of $94,500,000 notes @ 98¼		$92,373,750
Cost to syndicate:			
Aug. 1, 1916	Cost of $94,500,000 notes @ 96		90,720,000
Gross profit			1,653,750
Expenses:			
July 15, 1916	Printing	$14.50	
	Telegrams	4.51	
	Sundries, July 7 to 14	42.30	
18	Sundry	41.75	
	Postage	72.70	
	Sundry	38.75	
19	Addressing	5.40	
	Copying	1.90	
	Suppers	2.00	
	Postage	4.27	
20	Hotel and dinners	44.55	
	A. Nolan & Co	3.00	
21	Dinners and hotel	25.90	
	Postage	12.30	
22	Dinners	16.80	
25	Dinners	20.60	
	Printing	487.25	
	Postage	12.84	
	Hotel	4.00	
26	Printing	17.00	
	"	1,963.72	
	Dinners	8.75	
27	Hotel and dinners	27.25	
	Advertising	8,054.89	
31	Indexing letters	4.50	
	F. E. Voeglin, expenses	17.85	
Aug. 2, 1916	Dinners	16.15	
3	Typewriting	36.00	
4	Hotel	30.85	
	Rubber stamps	9.80	
5	Forward charges on $35,000 notes	3.75	
7	Advertising offering of notes	22,279.81	
	Printing	10.16	
	Harris Forbes Co	151.11	
9	Express of notes	48.75	
	Second at 5% on $90,000 notes, interest	25.00	
	Printing	8.09	
10	Hotel dinners, etc	20.05	
14	Brown Bros. Co	565.82	
	A. M. Anderson	83.00	
	Labor on addressograph	9.50	
	Postage	13.72	
	Hotel	6.50	
	Legal service and disbursement, F. L. Hipon	10,600.00	
	Cables	3,800.00	

Expenses—Continued

Aug. 16, 1916	Postage	$24.33	
	Legal service, Spooner and Cotton	4,500.00	
17	Printing	24.00	
21	Estimated unpaid expenses	6,319.33	
	Total expenses		$59,535
Aug. 14, 1916	Profit .0168 paid participants		$1,594,215

EXHIBIT No. 2700-B

American Foreign Securities Co. Capital A/C

July 31, 1916:	
Received against 100,000 shares, par value $100	$10,000,000.00
Repaid stockholders:	
Oct. 1, 1919	9,500,000.00
Apr. 27, 1922	498,000.00
Oct. 30, 1934	2,000.00
	10,000,000.00
Dividends paid:	
Feb. 15, 1917	500,000.00
Aug. 15, 1917	500,000.00
Feb. 15, 1918	300,000.00
Aug. 15, 1918	500,000.00
Feb. 15, 1919	500,000.00
Aug. 15, 1919	650,000.00
Mar. 15, 1922	60,000.00
Oct. 30, 1934	4,102.38

Company dissolved and charter surrendered in October 1934.

EXHIBIT No. 2701

American Foreign Securities Company 5% Note Syndicate, July 17, 1916

Participants	Participation	1.687% profit distributed 8/15/16
Abbott, Johnson & Co	100,000	$1,687.00
Albany Trust Co	25,000	421.75
Aldred & Co. [water and power brokers]	100,000	1,687.00
Alexander & Burnet [brokers]	50,000	843.50
Allerton, Green & King [broker, Chicago]	50,000	843.50
American Exchange Natl. Bank, N. Y. C	800,000	13,496.00
American Express Co	100,000	1,687.00
American Sugar Refining Co. [contracts]	100,000	1,687.00
American Trust Co., Boston	100,000	1,687.00
Ames, A. E., & Co	150,000	2,530.50
Ames, Emerich & Co. [brokers, Chicago]	50,000	843.50
Anderson, Bruns & Co. [brokers, N. Y.]	50,000	843.50
Andrews Co. [brokers, Chicago]	25,000	421.75
Anglo-London-Paris Natl. Bank	150,000	2,530.50
Asiel & Co. [broker, N. Y.]	50,000	843.50
Astor Trust Co	150,000	2,530.50
Atlantic National Bank	50,000	843.50
Auchincloss, Joost & Co. [broker, N. Y.]	25,000	421.75
Augusta Trust Co	25,000	421.75
Alliance Bank, Rochester	100,000	1,687.00
Adams & Co. [broker, N. Y.]	20,000	337.40
Bache, J. S., & Co. [Aetna explosive, steel]	100,000	1,687.00
Bachman, H. F., & Co. [broker, N. Y.]	25,000	421.75
Baker, Alfred L., & Co	25,000	421.75

American Foreign Securities Company 5% Note Syndicate, July 17, 1916—Con.

Participants	Participation	1.687% profit distributed 8/15/16
Baker, Watts & Co	50,000	$843.50
Baltimore Trust Co	50,000	843.50
Bank of America	100,000	1,687.00
Bank of Buffalo	100,000	1,687.00
Bank of California, N. A	200,000	3,374.00
Bank of Charleston, N. B. A	50,000	843.50
Bank of Commerce, N. A. (Cleveland)	100,000	1,687.00
Bank of Manhattan Co	250,000	4,217.50
Bank of Metropolis	100,000	1,687.00
Bank of Montreal	400,000	6,748.00
Bank of New York	200,000	3,374.00
Bank of Nova Scotia	100,000	1,687.00
Bank of Pittsburgh	100,000	1,687.00
Bankers Trust Co. (Buffalo)	25,000	421.75
Bankers Trust Co. (New York City)	2,265,000	38,210.55
Barney & Co., Chas. D. [broker, N. Y.]	100,000	1,687.00
Bartlett Bros. & Co	25,000	421.75
Baruch, B. M. [broker, N. Y.]	100,000	1,687.00
Bechtel, George M., & Co	25,000	421.75
Bell, Horace S	50,000	843.50
Benson & Packard	25,000	421.75
Bernhard, Scholle & Co. [broker, N. Y.]	100,000	1,687.00
Berwind, E. J. [Republic steel]	100,000	1,687.00
Biddle, Thos. A., & Co. [broker, steel]	75,000	1,265.25
Bioren & Co	25,000	421.75
Birch, Stephen [copper]	25,000	421.75
Biard, Maynard S. & Co	25,000	421.75
Blair & Co. [steel broker]	100,000	1,687.00
Blake Bros. & Co. [broker, N. Y.]	50,000	843.50
Blodget & Co. [broker, N. Y.]	75,000	1,265.25
Blyth, Witter & Co	50,000	843.50
Boatmens Bank	100,000	1,687.00
Bodell & Co	25,000	421.75
Boettcher, Porter & Co	35,000	590.45
Boissevain & Co. [broker, N. Y.]	100,000	1,687.00
Bonbright, W. P., & Co. [utilities]	1,000,000	16,870.00
Bonbright, Herrick & Co	100,000	1,687.00
Bond & Goodwin [broker]	200,000	3,374.00
Boocock, S. W. [banking]	50,000	843.50
Borg, Simon & Co. [broker]	100,000	1,687.00
Borton & Borton	50,000	843.50
Boston Safe Deposit & Trust Co	75,000	1,265.25
Branch, V. H	25,000	421.75
Branch, Cabell & Co. [broker, Richmond, Va.]	25,000	421.75
Branch, Thos., & Sons [broker, Richmond, Va.]	25,000	421.75
Breed, Elliot & Harrison [broker, Chicago]	50,000	843.50
Britton, W. R., & Co. [Horn Silver Mining Co.]	25,000	421.75
Broadway Trust Co. (N. Y. city)	100,000	1,687.00
Bronson, Theo. L	25,000	421.75
Brooke, Stokes & Co	25,000	421.75
Brooklyn Trust Co	150,000	2,530.50
Brooks & Co. [Connecticut Zinc Corp.]	25,000	421.75
Brown, Alexander & Sons	100,000	1,687.00
Brown Brothers & Co. [broker, N. Y.]	3,500,000	59,045.00
Brown, Walter G	25,000	421.75
Burrill & Stitt [broker, N. Y.]	25,000	421.75
Butcher, Sherrard & Hansel	25,000	421.75
Byrne & McDonnell	50,000	843.50
Bessemer Investment Co	250,000	4,217.50
Bank of Nutley, N. J	10,000	168.70
William M. Barnum [Beth Steel & Am.]	20,000	337.40
Bevan, P. R	10,000	168.70
Bolger, Masser & Willaman, Chicago [broker]	50,000	843.50
Bank of Washington Heights, N. Y	25,000	421.75
Callaway, Fish & Co. [broker, N. Y.]	100,000	1,687.00
Canadian Bank of Commerce	100,000	1,687.00
Capitol Trust & Savings Bank (St. Paul)	50,000	843.50
Carey, H. T., & Co. [broker]	25,000	421.75
Cassatt & Co	50,000	843.50
Central Trust & Safe Deposit Co. (Cinn.)	25,000	421.75
Central Trust Co. of Illinois (Chicago)	500,000	8,435.00
Central Trust Co. (New York City)	1,000,000	16,870.00
Chadbourne, F. M., & Co	25,000	421.75
Chambers, A. L., & Co	25,000	421.75
Chapman, P. W., & Co	25,000	421.75
Chase National Bank	2,500,000	42,175.00
Chatham & Phoenix Natl. Bank	150,000	2,530.50
Chicago, Savings Bank & Trust Co	100,000	1,687.00
Childs, C. F., & Co	50,000	843.50
Chisholm & Chapman [broker, N. Y.]	25,000	421.75

American Foreign Securities Company 5% Note Syndicate, July 17, 1916—Con.

Participants	Participation	1.687% profit distributed 8/15/16
Citizens Central Natl. Bank (New York City)	100,000	$1,687.00
Citizens National Bank (Cinn.)	25,000	421.75
Citizens & Southern Bank (Savannah)	25,000	421.75
City Bank (Syracuse)	25,000	421.75
Clark, Dodge & Co. [broker]	250,000	4,217.50
Clark, E. W. & Co. [Gen. Motors]	75,000	1,265.25
Clement National Bank	50,000	843.50
Clews, Henry & Co. [Wright Aeronautical]	50,000	843.50
Coal & Iron National Bank	100,000	1,687.00
Coffin & Company [broker, N. Y.]	25,000	421.75
Coffin & Burr	25,000	421.75
Coggeshall, M. H. & Hicks [paper]	25,000	421.75
Colgate Parker & Co. [oil]	100,000	1,687.00
Colonial Trust Co. (Pittsburgh)	100,000	1,687.00
Colston, Boyce & Co	25,000	421.75
Columbia Trust Co	500,000	8,435.00
Commercial Trust Co. (Philadelphia)	150,000	2,530.50
Commonwealth Trust Co	50,000	843.50
Compton, W. R., Co. [broker, N. Y.]	75,000	1,265.25
Conning & Co	25,000	421.75
Continental & Commercial Natl. Bank	250,000	4,217.50
Converse, E. C	200,000	3,374.00
Corn Exchange Natl. Bank (Chicago)	100,000	1,687.00
Craig, W. R. & Co. [Art Metal Const. Co., Simms Magneto Co.]	25,000	421.75
Crane, Parris & Co	25,000	421.75
Crawford Patton & Cannon (broker)	25,000	421.75
Curtis & Sanger [banks, N. Y.]	50,000	843.50
Chemical National Bank	100,000	1,687.00
Citizens Savings & Trust Co. (Cleveland)	50,000	843.50
Commercial Cable Co	200,000	3,374.00
Corn Exchange Nat'l Bank (Philadelphia)	50,000	843.50
County Trust Co. (White Plains, N. Y.)	25,000	421.75
Daly, Owen & Co	25,000	421.75
Davenport & Co	25,000	421.75
Davies Thomas & Co. [broker]	25,000	421.75
Day, R. L., & Co	150,000	2,530.50
Day & Heaton [broker, N. Y.]	50,000	843.50
Denny, Pomroy & Co. [banks & insurance]	100,000	1,687.00
Detroit Trust Co	50,000	843.50
Dexter Horton Nat'l Bank	50,000	843.50
Diamond National Bank	100,000	1,687.00
Dick, Gregory & Co	50,000	843.50
Dominick & Dominick [broker, N. Y.]	100,000	1,687.00
Dominick Bros. & Co	50,000	843.50
Dominion Securities Corp	100,000	1,687.00
Drexel & Co. [broker, steel]	500,000	8,435.00
Dunbar, H. A	25,000	421.75
Du Pont Co	2,000,000	33,740.00
Duval, H. C., & Co. [lights, &c.]	50,000	843.50
Debevoise, Foster	25,000	421.75
Deering Harvester Co	50,000	843.50
De Jonge, S. [paper, N. Y.]	20,000	337.40
Eastman, W. W., Co	25,000	421.75
Eastman, George	250,000	4,217.50
Eastman, Dillon & Co. [broker, N. Y.]	50,000	843.50
Eaton, L. F	25,000	421.75
Edey, Fred, & Co. [land broker, N. Y.]	50,000	843.50
Edwards, A. G., & Sons [Penn Coke & Coal Co., broker, N. Y.]	75,000	1,265.25
Eisele & King	25,000	421.75
Elkins, Morris & Co	50,000	843.50
Elston, Clifford & Co	25,000	421.75
Emery, Peck & Rockwood	25,000	421.75
Empire Trust Co. (New York City)	100,000	1,687.00
Equitable Trust Co. (New York City)	500,000	8,435.00
Ervin & Co	25,000	421.75
Essex County National Bank	50,000	843.50
Estabrook & Co. [broker, N. Y.]	200,000	3,374.00
Everitt, John D., & Co	50,000	843.50
Farmers & Mechanics Natl. Bank, Philadelphia	50,000	843.50
Fanshaw, W. S., & Co. [broker, N. Y.]	50,000	843.45
Farmers Loan & Trust Co., New York City	1,000,000	16,870.00
Farson Son & Co., [broker, N. Y.]	25,000	421.75
Fearon, Chas., & Co	25,000	421.75
Ferris & Hardgrove	25,000	421.75
Fidelity Bank, New York City	100,000	1,687.00
Fidelity Trust Co., New York City	100,000	1,687.00
Fidelity Trust Co., Philadelphia	100,000	1,687.00
Fidelity Trust Co., Portland, Me	25,000	421.70
Fidelity Trust Co., Rochester	50,000	843.50
Field, Richards & Co	75,000	1,265.25

American Foreign Securities Company 5% Note Syndicate, July 17, 1916—Con.

Participants	Participation	1.687% profit distributed 8/15/16
Fifth Avenue Bank	100,000	$1,687.00
Fifth-Third National Bank, Cinn	50,000	843.50
Fillmore, W. H., & Co	50,000	843.50
First & Old Detroit Natl. Bank	200,000	3,374.00
First & Security National Bank, Minn	100,000	1,687.00
First Bridgeport National Bank	50,000	843.50
First National Bank, Albany	50,000	843.50
First National Bank, Boston	500,000	8,435.00
First National Bank, Cinn	200,000	3,374.00
First National Bank, Cleveland	200,000	3,374.00
First National Bank, Denver	35,000	590.45
First National Bank, New York City	2,500,000	42,175.00
First National Bank, Philadelphia	50,000	843.50
First National Bank, Portland, Ore	50,000	843.50
First National Bank, Pueblo	25,000	421.75
First National Bank, Richmond	50,000	843.50
First National Bank, St. Paul	200,000	3,374.00
First National Bank, Scranton	25,000	421.75
First National Bank, Syracuse	25,000	421.75
First National Bank, Utica	25,000	421.75
First-Second National Bank, Pittsburgh	100,000	1,687.00
First Trust & Savings Bank, Chicago	250,000	4,217.50
Fisher, J. Harmanus, & Son	25,000	421.75
Fisk, Harvey & Sons [broker, N. Y.]	250,000	4,217.50
Fletcher American National Bank	50,000	843.50
Ford & Enos	25,000	421.75
Fort Dearborn Trust & Savings Bank	100,000	1,687.00
Foster & Lounsberry [broker, N. Y.]	50,000	843.50
Fourth Atlantic National Bank	100,000	1,687.00
Fourth & First National Bank, Nashville	50,000	843.50
Fourth Street National Bank, Philadelphia	100,000	1,687.00
Fox, George S. Sons	25,000	421.75
Fox, Hoyt & Co	25,000	421.75
Francis Brother & Co	75,000	1,265.25
Franklin National Bank, Philadelphia	200,000	3,374.00
Franklin Trust Co., New York City	100,000	1,687.00
Frazier & Co	50,000	843.75
Freeman & Co. [broker, N. Y.]	25,000	421.50
Frick, H. C	500,000	8,435.00
Friedlander, Edgar	25,000	421.75
First National Bank of Pasadena	25,000	421.75
Federal Trust Co., Boston	30,000	506.10
First National Bank, Milwaukee, Wis	50,000	843.50
Garrett, Robert & Sons [broker, Balt.]	100,000	1,687.00
Genesee Valley Trust Co	20,000	337.40
Germania National Bank, Milwaukee	50,000	843.50
Gibbons, Geo. B. & Co. [broker, N. Y.]	50,000	843.50
Gillespie, Livingston & Co. [broker, N. Y.]	50,000	843.50
Gilman, Chas. H. & Co	25,000	421.75
Girard National Bank, Philadelphia	100,000	1,687.00
Glidden, Lyon & Co	75,000	1,265.25
Glover, Chas. C. Jr. & W. J. Flather, Jr	25,000	421.75
Goadby, W. H. & Co. [stock broker, N. Y.]	25,000	421.75
Goodhart, P. J. & Co. [U. S. Cast Iron Pipe]	50,000	843.50
Grace, W. R. & Co. [contracts]	50,000	843.50
Graham & Co	75,000	1,265.25
Guaranty Trust Co., New York City	2,500,000	42,175.00
Guardian Savings & Trust Co., Cleveland	50,000	843.50
Guggenheim Bros. [copper]	1,000,000	16,870.00
Girard Trust Co., Philadelphia	100,000	1,687.00
Goodwin, P. H. & Co	25,000	421.75
Gorrell, Warren & Co., Chicago	25,000	421.75
Gray & Wilmerding [broker, N. Y.]	50,000	843.50
Hackett & Chidsey	25,000	421.75
Hall & Co	50,000	843.50
Halle & Stieglitz [broker, N. Y.]	50,000	843.50
Hallgarten & Co. [broker, N. Y.]	250,000	4,217.50
Halsey, C. D. & Co. [real estate broker], New York City	25,000	421.75
Halsey, N. W. & Co. [broker], New York City	300,000	5,061.00
Hambleton & Co. [broker]	25,000	421.75
Hamilton Trust Co., Brooklyn	150,000	2,530.50
Hanover National Bank	1,000,000	16,870.00
Harper & Turner	25,000	421.75
Harriman National Bank	100,000	1,687.00
Harris Forbes & Co. [broker], New York	2,000,000	33,740.00
Harris Trust & Savings Bank, Chicago	1,000.000	16,870.00
Harrison, C. C. Jr. & Co	50,000	843.50
Hartshorne & Battelle [broker, N. Y.]	50,000	843.50
Hayden, Miller & Co	100,000	1,687.00
Hayden, Stone & Co. [copper and zinc]	100,000	1,687.00
Hays, E. W. & Co	25,000	421.75

American Foreign Securities Company 5% Note Syndicate, July 17, 1916—Con.

Participants	Participation	1.687% profit distributed 8/15/16
Hazlett & Hazlett	25,000	$421.75
Heidelbach, Ickelheimer & Co. [broker, N. Y.]	200,000	3,374.00
Hemphill, White & Chamberlain	100,000	1,687.00
Henry & West	50,000	843.50
Herrick & Bennett [broker, N. Y.]	25,000	421.75
Herrick, Berg & Co. [broker, N. Y.]	25,000	421.75
Herzog & Glazier [broker, N. Y.]	25,000	421.75
Hincks Bros. & Co	25,000	421.75
Hirsch, Lilienthal & Co	50,000	843.50
Hobart & Gray	25,000	421.75
Hodenpyl, Hardy & Co. [dir. J. G. White & Co., broker, N. Y., power and light]	50,000	843.50
Holmes, Bulkley & Wardrop	100,000	1,687.00
Holtz, H. T. & Co	25,000	421.75
Hornblower & Weeks [broker, N. Y.]	100,000	1,687.00
Howard, John D. & Co	25,000	421.75
Howe, Snow, Corrigan & Bertle	25,000	421.75
Hunsinger, W. J. & Co	25,000	421.75
Huntington National Bank, Columbus	50,000	843.50
Hale, Albert & Co	25,000	421.75
Halsey, N. W. & Co. [broker, N. Y.], San Francisco	200,000	3,374.00
Harrisburg Pipe & Pipe Bending Co. [contract]	100,000	1,687.00
Hibbard, Kalbfleish & Palmer	25,000	421.75
Horowitz, L. J. [Thompson Starret Co.]	25,000	421.75
Hosford, Harry W. [Johnson & Co., Inc.]	25.000	421.75
Illinois Trust & Savings Bank	250,000	4,217.50
Imbrie, Wm. Morris, & Co. [steel broker, N. Y.]	100,000	1,687.00
Importers & Traders Natl. Bank, N. Y. C	100,000	1,687.00
Industrial Trust Co., Providence	75,000	1,265.25
International Trust Co., Boston	50,000	843.50
International Trust Co., Denver	50,000	843.50
Interstate Trust & Bank'g Co., New Orleans	100,000	1,687.00
Irving National Bank	500,000	8,435.00
Iselin, A., & Co. [steel broker]	300,000	5,061.00
Jackson & Curtis [broker]	100,000	1,687.00
Jakes, J. W., & Co	25,000	421.75
Johnson, Francis Jewett	35,000	590.45
Jones, Breckinridge	75,000	1,265.25
James, Arthur Curtiss [brass, copper]	100,000	1,687.00
Kaufman, Smith Emert, Inv. Co	25,000	421.75
Kalman, Matteson & Wood	25,000	421.75
Kean, Taylor & Co. [broker, N. Y.]	500,000	8,435.00
Keys, C. M. [Curtis Aeroplane]	50,000	843.50
Kidder, A. M., & Co. [broker, N. Y.]	25,000	421.75
Kidder, Peabody & Co. [broker, N. Y.]	2,000,000	33,740.00
Kilvert, C. A., & Co	25,000	421.75
Kings County Trust Co	100,000	1,687.00
Kinsley & Adams	25,000	421.75
Kissel, Kinnicutt & Co. [Marlin Arms, broker, N. Y.]	500,000	8,435.00
Kountze Bros. [broker, N. Y.]	250,000	4,217.50
Kusterer, Hilliker & Perkins	25,000	421.75
Ladd & Wood [dir. Hanover Fire Ins. Co., Plainfield; broker, N. Y.]	100,000	1,687.00
Ladenburg, Thalmann & Co. [broker, N. Y.]	250,000	4,217.50
Laidlaw & Co. [real est.; ice broker, N. Y.]	50,000	843.50
Laird & Co	50,000	843.50
Lanahan, W. W., & Co	25,000	421.75
Lawrence, A. Hicks [50 Broad, broker, N. Y.]	25,000	421.75
Lawrence, Cyrus J., & Sons [broker, N. Y.]	25,000	421.75
Lawyers Title & Trust Co., N. Y. C	100,000	1,687.00
Lazard Freres [broker, N. Y.]	500,000	8,435.00
Leach, A. B., & Co. [broker, N. Y.]	500,000	8,435.00
Leake, Harold T., & Co. [broker, N. Y.]	25,000	421.75
Lee, Higginson & Co. [broker, N. Y.]	2,000,000	33,740.00
Lehman Bros. [from broker, N. Y.]	50,000	843.50
Lescure, Suavely & Co	25,000	421.75
Lewis, Marvin H., & Co	25,000	421.75
Liberty National Bank, N. Y. C	1,000,000	16,870.00
Lincoln National Bank, N. Y. C	100,000	1,687.00
Lincoln National Bank, Rochester	50,000	843.50
Lincoln Trust Co., N. Y. C	100,000	1,687.00
Loew & Co. [broker, N. Y.]	25,000	421.75
Low, Dixon & Co	50,000	843.50
Lumbermens Trust Co	50,000	843.50
Lunt, C. S., & Co	25,000	421.75
Lyon, Singer & Co	25,000	421.75
Market Street National Bank, Philadelphia	25,000	421.75
McLean, James	50,000	843.50
McCully, Francis K	25,000	421.75
McCurdy, Henderson & Co. [broker, N. Y.]	25,000	421.75
Mabon & Co. [Virginia Iron & Coal]	50,000	843.50

American Foreign Securities Company 5% Note Syndicate, July 17, 1916—**Con.**

Participants	Participation	1.786% profit distributed 8/15/16
Mackay & Co. [14 Wall, Leyling]	50,000	$843.50
Mackubin, Goodrich & Co	50,000	843.50
Macomber, W. Sturgis	25,000	421.75
Magoffin, James R. [treas. E. C. McWathy Co., broker, N. Y.]	25,000	421.75
Maine Trust & Banking Co	25,000	421.75
Maitland, Coppell & Co. [broker, N. Y.]	100,000	1,687.00
Marine National Bank	100,000	1,687.00
Mann, Bill & Co. [broker, N. Y.]	100,000	1,687.00
Manson, T. L., & Co. [broker, N. Y.]	50,000	843.50
Manufacturers & Traders Natl. Bk., Buffalo	100,000	1,687.00
Manufacturers National Bank, Troy	25,000	421.75
Markoe, Morgan & Co. [broker, N. Y.]	25,000	421.75
Maryland Trust Co	50,000	843.50
Mechanics & Metals National Bank	1,000,000	16,870.00
Mellon National Bank	500,000	8,435.00
Mellor & Petry	25,000	421.75
Mercantile Trust & Deposit Co., Balto	100,000	1,687.00
Merchants Laclede National Bank	75,000	1,265.25
Merchants Loan & Trust Co., Chicago	150,000	2,530.50
Merchants National Bank, Boston	250,000	4,217.50
Merchants National Bank, N. Y. City	250,000	4,217.50
Merchants National Bank, Richmond	50,000	843.50
Merchants National Bank, Worcester	35,000	590.45
Merchants Trust & Savings Bank, St. Paul	50,000	843.50
Meredith, C., & Co	250,000	4,217.50
Merrill, Oldham & Co	100,000	1,687.00
Merrill Trust Co	25,000	421.75
Merwin, Gray & Co	25,000	421.75
Messenkopf, Chas	25,000	421.75
Metropolitan Trust Co	500,000	8,435.00
Meyer, Eugene, Jr., & Co. [copper, broker, N. Y.]	100,000	1,687.00
Middendorf, Williams & Co	25,000	421.75
Miller, George P	50,000	843.50
Millett, Roe & Hagan [52 Wm. St., Nat. Conduit, broker, N. Y.]	50,000	843.50
Mills & Stewart [broker, N. Y.]	25,000	421.75
Montgomery, Clothier & Tyler [broker, Phil.]	100,000	1,687.00
Montgomery Co. Trust Co., Amsterdam, N. Y	50,000	843.50
Moore, Leonard & Lynch [broker, N. Y.]	50,000	843.50
Moors & Cabot	25,000	421.75
Morgan, J. P., & Co. [U. S. Steel a/c]	5,000,000	84,350.00
Morgan, Reed A., & Co	25,000	421.75
Morgan & Bartlet [broker, N. Y.]	25,000	421.75
Morris & Rice	25,000	421.75
Morristown Trust Co	50,000	843.50
Moseley, F. S., & Co. [broker, N. Y.]	250,000	4,217.50
Munsey Trust Co	50,000	843.50
Mutual Bank, N. Y. City	100,000	1,687.00
Michigan Trust Co., Grand Rapids	50,000	843.50
Moors, J. B., & Co	25,000	421.75
Muir, John, & Co. [broker, N. Y.]	25,000	421.75
Mechanics Bank, Brooklyn	50,000	843.50
Merchants National Bank, Newark, N. J	25,000	421.75
Metropolitan Bank	50,000	843.50
Mills, Ogden [mining]	150,000	2,530.50
Miners Bank, Wilkes-Barre, Pa	25,000	421.75
Morris Bros. [broker, N. Y.]	25,000	421.75
Nassau National Bank, Brooklyn	100,000	1,687.00
National Bank of Commerce, N. Y. City	1,500,000	25,305.00
National Bank of Commerce, Norfolk	50,000	843.50
National Bank of Commerce, St. Louis	75,000	1,265.25
National Bank of Kentucky	35,000	590.45
National Bank of the Republic, Chicago	50,000	843.50
National Bank of Syracuse	25,000	421.75
National City Bank, Brooklyn	50,000	843.50
National City Bank, Chicago	50,000	843.50
National City Bank, N. Y. City	3,000,000	50,610.00
National City Bank, Troy	25,000	421.75
National Commercial Bank, Albany	100,000	1,687.00
National Commercial Bank, Cleveland	100,000	1,687.00
National Exchange Bank, Milwaukee	50,000	843.50
National Park Bank, N. Y. City	500,000	8,435.00
National Shawmut Bank	500,000	8,435.00
National State & City Bank, Richmond	50,000	843.50
National Union Bank	75,000	1,265.25
Newbold, W. S. & Son & Co	75,000	1,265.25
Newbold, Taylor & Gauss	25,000	421.75
Newburger, Henderson & Loeb [broker, N. Y.]	50,000	843.50
New England Trust Co., Boston	100,000	1,687.00
Newhall, Churchman & Co	25,000	421.75
New Netherland Bank	25,000	421.75

American Foreign Securities Company 5% Note Syndicate, July 17, 1916—Con.

Participants	Participation	1.786% profit distributed 8/15/16
New York Produce Exchange Bank	100,000	$1,687.00
New York State National Bank, Albany	100,000	1,687.00
New York Trust Co., N. Y. City	400,000	6,748.00
Nickerson, John Jr. [Ranier Motor Corp.]	50,000	843.50
Northern Trust Co., Chicago	50,000	843.50
Northwestern National Bank, Minn	75,000	1,265.25
New Haven Bank, N. B. A	35,000	590.45
Northwestern Trust Co., St. Paul	100,000	1,687.00
National Bank of Commerce, Seattle	25,000	421.75
New Jersey Title & Guarantee Trust Co	25,000	421.75
New York County National Bank	100,000	1,687.00
Northern New York Trust Co., Watertown	25,000	421.75
North Ward National Bank, Newark	25,000	421.75
Old Colony Trust Co	500,000	8,435.00
Old National Bank, Grand Rapids	50,000	843.50
Oliphant, Jas. H. & Co. [broker, N. Y.]	50,000	843.50
Orvis Bros. & Co. [broker, N. Y.]	25,000	421.75
Otis & Co	50,000	843.50
Outwater & Wells	25,000	421.75
Old National Bank, Spokane	35,000	590.45
Pacific Bank	25,000	421.75
Page, Sterling & Co	25,000	421.75
Palisades Trust & Guarantee Co	25,000	421.75
Parkinson & Burr [broker, N. Y.]	75,000	1,265.25
Peabody, Chas. A. [insurance]	250,000	4,217.50
Peabody, Houghteling & Co. [Chicago, broker]	35,000	590.45
Peach, F. C	25,000	421.75
Peck, Rasmus & Truesdale [broker, N. Y.]	50,000	843.50
Pennsylvania Co., the, for insurance on lives, etc	100,000	1,687.00
Peoples National Bank, Pittsburgh	100,000	1,687.00
Peoples Trust Co., Bklyn	100,000	1,687.00
Perry, Arthur & Co	25,000	421.75
Philadelphia National Bank	150,000	2,530.50
Philadelphia Trust Co	50,000	843.50
Pittsburgh Trust Co	100,000	1,687.00
Plainfield Trust Co	25,000	421.75
Plympton, Gardiner & Co	25,000	421.75
Potter, Choate, & Prentice [broker, N. Y.]	250,000	4,217.50
Pratt, Chas., & Co. [Standard Oil]	100,000	1,687.00
Prescott & Snyder	25,000	421.75
Price, John E., & Co	25,000	421.75
Prince, F. H., & Co	50,000	843.50
Providence National Bank	50,000	843.50
Provident Savings Bank & Trust Co., Cin	50,000	843.50
Public Bank, N. Y. City	100,000	1,687.00
Pyne, Kendall & Hollister [broker, N. Y.]	50,000	843.50
Raymond, W. L., & Co	25,000	421.75
Raymond, Pynchon & Co. [broker, N. Y.]	25,000	421.75
Read, Wm. A., & Co	2,000,000	33,740.00
Redmond & Co. [broker, N. Y.]	250,000	4,217.50
Reilly, Brock & Co	50,000	843.50
Remick, Hodges & Co [Electric Boat, broker, N. Y.]	100,000	1,687.00
Rhode Island Hospital Trust Co., Prov	75,000	1,265.25
Rhoades & Co. [broker, N. Y.]	100,000	1,687.00
Richardson & Clark	50,000	843.50
Ricker, Edgar, & Co	25,000	421.75
Rippel, J. S., & Co	25,000	421.75
Robinson & Co. [broker, N. Y]	25,000	421.75
Robinson, Humphrey, Wardlaw Co	25,000	421.75
Rochester Trust & Safe Deposit Co	25,000	421.75
Rockefeller, John D. [oil]	2,000,000	33,740.00
Rollins, E. H., & Sons [broker, N. Y.]	250,000	4,217.50
Rothschild, L. F., & Co. [120 Worthington Pump & Mdse. Co., brokers, N. Y.]	25,000	421.75
Royal Bank of Canada	100,000	1,687.00
Rutter & Ream [broker, N. Y.]	50,000	843.50
Safety Fund National Bank, Fitchburg	25,000	421.75
St. Louis Union Bank	100,000	1,687.00
Safe Deposit & Trust Co., Balto	100,000	1,687.00
Safe Deposit & Trust Co., Pittsburgh	75,000	1,265.25
Sage, Walcott & Steele	50,000	843.50
Salomon Bros. & Hutzler [broker, N. Y.]	100,000	1,687.00
Salomon, Wm., & Co. [broker, N. Y.]	100,000	1,687.00
Scandinavian-Amer. Natl. Bank, Minn	50,000	843.50
Schenectady Trust Co	50,000	843.50
Schafly, August, & Sons	50,000	843.50
Scott, Townsend, & Son	25,000	421.75
Scranton, Chas. W., Co	25,000	421.75
Seaboard National Bank	100,000	1,687.00
Seasongood & Mayer [broker, Cin., O.]	50,000	843.50
Seattle National Bank	25,000	421.75

American Foreign Securities Company 5% Note Syndicate, July 17, 1916—Con.

Participants	Participation	1.786% profit distributed 8/15/16
Second National Bank, Boston	250,000	$4,217.50
Second National Bank, N. Y. City	100,000	1,687.00
Security Trust Co., Rochester	100,000	1,687.00
Security Trust Co., Troy	25,000	421.75
Seligman, J. & W., Co. [broker, N. Y.]	2,000,000	33,740.00
Seymour, Edmund, & Co. [fish broker, N. Y.]	25,000	421.75
Seymour, Willard W	25,000	421.75
Sharrets & Young	25,000	421.75
Shearson, Hammill & Co. [broker, N. Y.]	100,000	1,687.00
Skinner, H. H	25,000	421.75
Slater Trust Co	25,000	421.75
Smith, Moore & Co	50,000	843.50
Smith, Paschall & Co	25,000	421.75
Smithers, F. S., & Co. [Central Foundry, broker, N. Y.]	100,000	1,687.00
Society for Savings, Cleveland	200,000	3,374.00
Souders, W. G., & Co	25,000	421.75
Spalding, Close & Co. [broker, N. Y.]	50,000	843.50
Spokane & Eastern Trust Co	50,000	843.50
Springfield Safe Deposit & Trust Co	25,000	421.75
Stacy & Braun	25,000	421.75
State Bank, Chicago	50,000	843.50
State Bank, N. Y. City	200,000	3,374.00
State Street Trust Co., Boston	100,000	1,687.00
Stein Brothers	25,000	421.75
Steinberg, Mark C., & Co	25,000	421.75
Stephens & Co	25,000	421.75
Stevens Chapman & Co	25,000	421.75
Stefel, Nicclaus-Parsons Inv. Co	25,000	421.75
Stix, Harry F. [broker, St. Louis]	25,000	421.75
Stone, Chas. A. [N. Y. Ship, Int. M. Marine]	25,000	421.75
Stone & Webster [war contract 913]	100,000	1,687.00
Strandberg, McCreery & Co	25,000	421.75
Strother, Borgden & Co	50,000	843.50
Sun Life Ins. Co. of Canada	300,000	5,061.00
Sutro Bros. & Co. [Tennessee Copper, broker, N. Y.]	25,000	421.75
Swartwout & Appenzellar [Cumnock Coal, Am.-LaFrance, broker, N. Y.]	25,000	421.75
Syracuse Trust Co	25,000	421.75
Simon, I. M., & Co	25,000	421.75
Stanwood, Taylor & Co	25,000	421.75
Stokes, E. Lowber	25,000	421.75
Strong, Benj., Jr	15,000	253.05
Third National Bank, St. Lous	75,000	1,265.25
Thomson Fenn & Co	25,000	421.75
Thomson, Shonnard & Co. [broker, N. Y.]	25,000	421.75
Tifft Bros. & Co	25,000	421.75
Tilghman, Johnston & Co	25,000	421.75
Tillotson & Wolcott Co. [broker, N. Y.]	50,000	843.50
Tilney, Ladd & Co	25,000	421.75
Title Guarantee & Trust Co	250,000	4,217.50
Trask, Spencer & Co. [broker, N. Y.]	250,000	4,217.50
Trust & Deposit Co. of Onondaga	100,000	1,687.00
Trust Co. of Georgia, Atlanta	25,000	421.75
Tucker, Anthony & Co. (send to N. Y.) [broker, N. Y.]	100,000	1,687.00
Turnure, Lawrence & Co. [ins. broker, N. Y.]	50,000	843.50
Union & New Haven Trust Co	35,000	590.45
Union National Bank, Cleveland	50,000	843.50
Union National Bank, Pittsburgh	100,000	1,687.00
Union Savings Bank & Trust Co., Cinn	50,000	843.50
Union Trust Co., Detroit	50,000	843.50
Union Trust Co., N. Y. City	1,000,000	16,870.00
Union Trust Co., Pittsburgh	750,000	12,652.50
Union Trust Co., Rochester	75,000	1,265.25
United States Mortgage & Trust Co., N. Y. City	250,000	4,217.50
United States Trust Co., Boston	25,000	421.75
United States Trust Co., Louisville	35,000	590.45
United States Trust Co., N. Y. City	500,000	8,435.00
Utica Trust & Deposit Co	25,000	421.75
Union Exchange Bank, N. Y. City	50,000	843.50
Union Investment Co	25,000	421.75
Union Trust Co., Albany	25,000	421.75
Vanderbilt, Cornelius	100,000	1,687.00
Van Emburgh & Atterbury [broker, N. Y.]	100,000	1,687.00
Van Voorhes, Wilson & Co	25,000	421.75
Vickers & Phelps [broker, N. Y.]	25,000	421.75
Vietor & Hubbel	25,000	421.75
Walker Bros. [broker, N. Y.]	25,000	421.75
Wainwright, H. C., & Co	25,000	421.75
Walker, Joseph & Sons [Banks & R. R., broker, N. Y.]	25,000	421.75
Waples, Rufus & Co	25,000	421.75
Waterbury National Bank	50,000	843.50

American Foreign Securities Company 5% Note Syndicate, July 17, 1916—Con.

Participants	Participation	1.786% profit distributed 8/15/16
Watson, Williams & Co.	50,000	$843.50
Weil, Roth & Co.	75,000	1,265.25
Wells, Dickey & Co.	50,000	843.50
Wells Fargo & Co.	100,000	1,687.00
Welsh Bros.	25,000	421.75
Western National Bank, Pittsburgh	50,000	843.50
Wheeler, Elliot & Mann	25,000	421.75
Whelen, Townsend & Co.	50,000	843.50
White, Grubbs & Co.	25,000	421.75
Whitney, H. N., & Sons [broker, N. Y.]	50,000	843.50
Whitney, Richard & Co. [stock exchge. house]	50,000	843.50
Willson, James C. & Co.	35,000	590.45
Wilson, Slade & Co.	25,000	421.75
Winslow, Lanier & Co. [Electric Boats, broker, N. Y.]	100,000	1,687.00
Winthrop, Robb & Co. [broker, N. Y.]	100,000	1,687.00
Wisconsin National Bank, Milw.	50,000	843.50
Wisconsin Trust Co.	50,000	843.50
Wistar & Stokes	25,000	421.75
Wood, Gundy & Co.	200,000	3,374.00
Wood, Johnston & Co.	25,000	421.75
Wood, Struthers & Co. [broker, N. Y.]	50,000	843.50
Worcester Trust Co.	35,000	590.45
Wright, H. P., Investment Co.	50,000	843.50
Wright, J. N., & Co.	35,000	590.45
Wurtz, Dulles & Co.	25,000	421.75
Western Union Telegraph Co.	250,000	4,217.50
White, Walter C.	50,000	843.50
Worcester National Bank	35,000	590.45
J. P. Morgan & Co. 2/3	----------	----------
Brown Brothers & Co. 1/3	25,000	421.75
Total	94,500,000	1,594,215.00

NOTE.—Pencil notations enclosed in brackets.

EXHIBIT No. 2702

AMERICAN FOREIGN SECURITIES COMPANY AND BANKERS TRUST COMPANY, TRUSTEE—COLLATERAL INDENTURE DATED AUGUST 1, 1916, SECURING $94,500,000 THREE-YEAR 5% COLLATERAL GOLD NOTES, INTEREST PAYABLE FEBRUARY 1 AND AUGUST 1

An indenture, dated the first day of August, one thousand nine hundred and sixteen, between

American Foreign Securities Company (hereinafter termed the "company"), a corporation organized and existing under the laws of the State of Delaware, party of the first part, and

Bankers Trust Company (hereinafter termed the "trustee"), a corporation organized and existing under the laws of the State of New York, party of the second part:

Whereas, under date of July 18, 1916, the company has entered into a contract with the Government of the French Republic, whereunder the company is to make to the Government a loan of $100,000,000 payable July 31, 1919, and such Government has pledged or will pledge with the company as security for the payment of such loan, principal and interest, certain bonds and other securities including the bonds and other securities delivered or deliverable to the trustee under this indenture as hereinafter set forth, which said contract provides, among other things, as follows (the French Government therein mentioned referring to said Government of the French Republic, and the company therein mentioned referring to the corporation named as party of the first part in this indenture, and the collateral indenture therein referred to marked annex B being substantially in the form of this indenture), to wit:

"Fifth. On the first day of August 1916, subject to the provisions of Article Fifteenth hereof, the French Government will deliver to and will pledge and hypothecate with the company, as collateral security under this agreement, the securities scheduled in Annex A. Delivery of such securities shall be made for account of the company to the Bankers Trust Company in the city of New York, the coupons appertaining thereto having been previously detached and deposited as provided in Article Eleventh. All such securities shall be in negotiable form, either payable to bearer, or assigned to bearer or assigned in blank by proper instruments of assignment and transfer.

"The French Government represents that the present value of said securities in the aggregate is not less than one hundred and twenty million dollars ($120,000,000).

"In the determination at any time of the value of securities for all purposes of this agreement, the market value in francs of the securities in France shall be converted into dollars in the city of New York at the then exchange value of francs in the New York market. The word value used herein shall be deemed to mean market value thus converted.

"If at any time during the continuance of the loan, the securities deposited as herein provided, shall have depreciated in value, then, upon notice and request from the company, the French Government will deposit and pledge or will cause to be deposited and pledged hereunder with the company in the United States additional securities of the same character as those scheduled in annex A and in an amount necessary to bring the value at each such time of the total securities so pledged to a sum exceedingly by not less than twenty per centum (20%) the principal amount unpaid under this agreement, so that at all times such twenty per centum margin shall be maintained.

"EIGHTH. The French Government hereby agrees that the whole or any part of the securities (or money substituted therefor) from time to time and at any time held in pledge hereunder may be rehypothecated by the company as security for collateral trust notes to be issued by the company, provided that such rehypothecation shall be in accordance with the terms of the collateral indenture attached hereto marked annex B.

"The company covenants that it will not sell, assign, or pledge this agreement, or any of the obligations of the French Government hereunder.

"NINTH. In the event that the French Government shall make default in the payment of interest or principal, or in the observance of any other covenant herein provided, and such default shall continue for a period of thirty (30) days, then at the option of the company, the principal of this loan may be declared due and/or the company may sell, subject to the lien of the collateral indenture attached hereto, marked annex B, the securities deposited hereunder as collateral by the French Government, in such lots and at such times as the company may determine, provided, however, that no such sale of any of said securities shall be made by the company except at public sale in the cities of New York, or Paris, or London, and upon not less than thirty (30) days previous notice to the French Government. Upon any such sale the French Government and/or the company may purchase such securities without accountability other than for the purchase price. And at any time prior to the date of such public sale, upon payment of the amount due hereunder, the French Government may redeem all of the collateral securities deposited hereunder.

"In case of any such sale of the collateral securities deposited under the terms of this agreement, the money, proceeds or avails of the same, together with any other moneys which may then be held by the company to the credit of the French Government shall be applied as follows, to wit:

"First: To the payment of all necessary and reasonable costs and expenses of such sale;

"Second: To the payment of the whole amount then due by the French Government for principal and for interest under the terms of this agreement, the French Government continuing liable for any deficiency;

"Third: To the payment of the surplus (if any exist) to the French Government.

"TENTH. In case of the rehypothecation of any securities pledged hereunder by the French Government, and in case of any default by the company which would render such securities liable to public sale, the French Government at its option may either—

"(*a*) Bid for and purchase any and all of such securities so offered at public sale; or

"(*b*) In case the French Government be not in default hereunder, it may also in case of any offering for sale under the powers of sale contained in the collateral indenture attached hereto and marked annex B, pay the entire indebtedness of the company under or secured by said collateral indenture hereto annexed, by depositing the amount of such indebtedness in gold coin of the United States with the trustee under said collateral indenture at least five days before such sale. In case of such payment by the French Government, the amount thereof shall be by the company credited on the total amount then due by the French Government under the terms of this agreement, and the company and trustee shall, forthwith, release the collateral security deposited hereunder, and shall deliver the same as provided in article seventh hereof. If at the time of the offering for such sale, the French Government shall be in default, it may redeem only by paying to the trustee under said collateral indenture, its entire indebtedness to the company.

"In case there shall be any sale under the collateral indenture attached hereto marked annex B and at the time the French Government shall not be in default hereunder, then the French Government shall be paid any surplus remaining after the application of the proceeds of sale under the terms of said collateral indenture, and be credited hereunder with the gross proceeds of such sale or sales, after deducting such surplus. In case, however, at the time of said sale or sales, the French Government shall be in default hereunder, it shall be credited only with the gross proceeds after deducting the costs and expenses of such sale or sales, as defined in said collateral indenture. Credits in favor of the French Government made in accordance with this article shall not affect its obligation for any balance due hereunder after making such credits.

"ELEVENTH. Before delivery of securities by the French Government under any provision of this agreement, the French Government may detach from said securities all coupons payable on or before the first day of August 1919. The French Government shall deposit, or shall cause to be deposited, all of said coupons with such bank or banks in the city of Paris, France, as the parties may agree upon, which shall hold the same for account of the company as collateral security under this agreement, subject to the lien hereof. Such bank or banks shall present all of said coupons for payment when due, free of any expense to the company, and, the French Government not then being in default hereunder, any and all sums so collected by them shall be, forthwith, paid into the Bank of France to the credit of the French Government. Except in the event of default by the French Government such coupons shall remain in France. Delivery of all such coupons appertaining to securities released or securities substituted under the provisions of article sixth of this agreement shall be made in France. Except as in this article provided, all the provisions hereof relating to the securities deposited hereunder in the city of New York shall be deemed to include and apply to the coupons detached but respectively appertaining thereto."

"SIXTEENTH. Whenever, according to any of the provisions of this agreement, any notice, request, or instruction may be, or is required to be, given by one party to the other, it shall be deemed sufficient if given in writing, either in French or English, as follows, to wit:

"(*a*) If from the company to the French Government, over the signatures of any two of the following executive officers of the company acting in its behalf; president, chairman of the executive committee, vice chairman of the executive committee, secretary, or treasurer:

"1. By delivery at the office of the consul general of France, in the city of New York, or

"2. By cable addressed to the Minister of Finance of the French Government, provided that a copy of such cable is delivered on the day that it is sent at the office of the consul general of the French Government in the city of New York, or

"3. By delivery to M. Octave Homberg, as long as he shall be financial agent of the French Government in the United States, or to his successor as such financial agent, or

"4. By delivery at the office of the Minister of Finance of the French Government in France.

* * * * * * *"

And whereas for its lawful corporate purposes, being the provision in part of the sum to be loaned to the Government of the French Republic, the company has resolved to issue and to dispose of its three-year 5% collateral gold notes, dated August 1, 1916, hereinafter sometimes termed "the notes", for the aggregate principal sum of $94,500,000, and to secure the payment of such notes by pledging with the trustee under this indenture the property hereinafter specified; and

Whereas, The company has resolved that such notes shall be executed in its name by its president or a vice-president, and be countersigned by its treasurer or an assistant treasurer, and that before issuance and delivery thereof each of such notes shall be authenticated by a certificate of the trustee to the effect that such note is one of the notes described in this indenture; and

Whereas such notes of the company are to be negotiable notes, payable to bearer, for the principal sum of $100, or of $1,000, or of $5,000, or of $10,000, or of any multiple of $10,000 that shall be authorized by the company; and to be substantially in the form following—the number of each note and the principal sum thereof having been inserted in the respective blanks therefor, viz.:

[Form of negotiable note]

No.—— $——

UNITED STATES OF AMERICA, STATE OF DELAWARE, AMERICAN FOREIGN SECURITIES COMPANY, THREE-YEAR 5% COLLATERAL GOLD NOTE

American Foreign Securities Co. (hereinafter called "the company"), for value received, hereby promises to pay to the bearer, the sum of ———— dollars, on the first day of August 1919, at the office of J. P. Morgan & Co. in the Borough of Manhattan, city of New York, State of New York, in gold coin of the United States of America of or equivalent to the standard of weight and fineness existing August 1, 1916, with interest thereon at the rate of five per centum (5%) per annum, payable in like gold coin, at such office, semiannually, on the first day of February and the first day of August in each year, but only upon presentation and surrender of the annexed coupons as severally they mature. Both such principal and interest are payable without deduction for any tax or taxes, present or future (except any Federal income tax of the United States of America), which the company or the trustee under the collateral indenture hereinafter mentioned, may be required to deduct therefrom.

This note is one of an issue of notes for the aggregate principal sum of $94,500,000, all equally and ratably secured by an indenture dated August 1, 1916 (hereinafter termed "collateral indenture"), duly executed and delivered by the company to Bankers Trust Company, a corporation of the State of New York, as trustee, pledging to and with said trustee certain property therein described, to which collateral indenture reference is hereby made for a description of the nature and extent of the security and the rights of the holders of said notes and of the trustee in respect of such security.

This note is subject to redemption prior to maturity, at the option of the company, on February 1, 1917, at 101½% of the principal sum, or on August 1, 1917, or February 1, 1918, at 101% of the principal sum, or on August 1, 1918, or February 1, 1919, at 100½% of the principal sum, accrued interest on the note to the date of any such redemption being also payable, in the manner provided in the collateral indenture, to which reference is made for a complete statement. Notice of any such redemption will be published in a newspaper in the Borough of Manhattan, city of New York, at least thirty days previous to the date of any such redemption, as in the collateral indenture provided.

In case of certain defaults specified in the collateral indenture, the principal of this note and of all the other notes of this issue may be declared, and thereupon shall become and be, due and payable immediately as in the collateral indenture provided.

No recourse for the payment of the principal of or the interest on this note shall be had against any officer, director, incorporator, or stockholder of the company under or pursuant to any statute or otherwise, any and all such liability, now existing or hereafter created, being waived by the holder of this note by the acceptance hereof.

This note shall pass by delivery.

The notes of this issue are in denominations of $100, $1,000, $5,000, and $10,000. As provided in said collateral indenture any notes of denominations greater than $100 at any time outstanding, when surrendered for that purpose with all unmatured coupons attached, may be exchanged at the office of the Trustee for notes of equal aggregate principal amount of any lower denomination or denominations.

This note shall not become or be obligatory for any purpose until the certificate of authentication endorsed hereon shall have been signed by the trustee.

In witness whereof, American Foreign Securities Company has caused this note to be signed by its president or a vice-president, and to be countersigned by its treasurer or an assistant treasurer, and coupons for said interest bearing the engraved facsimile signature of its treasurer to be attached hereto. Dated the first day of August, A. D. 1916.

AMERICAN FOREIGN SECURITIES COMPANY,
By ——— ———, *President.*
Countersigned: ——— ———, *Treasurer.*

And whereas there are to be attached to each of the said notes, at the time of the issue thereof, coupons representing the semi-annual instalments of interest which are to become due thereon, of which the first is payable February 1, 1917, each of which coupons is to be substantially of the following tenor, the proper number of the coupon, date of payment, face amount, number of the note, and facsimile signature of the treasurer, having been inserted in the respective blanks therefor, to wit:

[FORM OF INTEREST COUPON]

No.——— $———

On the first day of , 191 , unless the note herein mentioned shall have been called for previous redemption, American Foreign Securities Company will pay to bearer, at the office of J. P. Morgan & Co., in the Borough of Manhattan, City of New York, N. Y., dollars, United States gold coin of the standard existing August 1, 1916, without deduction of taxes specified in the note, being six months interest then due on its Three-Year 5% Collateral Gold Note, No.

Treasurer.

And whereas on each of said notes there is to be a certificate of the trustee substantially of the following tenor, to wit:

[FORM OF TRUSTEE'S CERTIFICATE]

This note is one of the notes described in the within-mentioned indenture.

BANKERS TRUST COMPANY, *Trustee,*
By ———,———, *Assistant Secretary.*

And whereas the company has resolved that the indenture to secure the said notes shall be of the form of this indenture; and

Whereas all things necessary to make such notes, when certified by the trustee, the valid, binding and legal obligations of the company, and these presents a valid indenture of pledge to secure and to provide for the payment of the said notes, have been done and performed and have happened, and the execution and issue of said notes and of this indenture have been in all respects duly authorized:

Now, therefore, this indenture witnesseth; that in order to secure the payment of the principal and interest of all of said notes at any time issued and outstanding under this indenture, according to the tenor, purport, and effect thereof, and to secure the performance and observance of all the covenants and conditions herein contained, and to declare the terms and conditions on which said notes are issued, received, and held, and in consideration of the premises and of the purchase and acceptance of such notes by the holders thereof and of the sum of one dollar to it duly paid by the trustee at the execution of these presents, the receipt whereof is hereby acknowledged:

American Foreign Securities Company has pledged to and hypothecated with, and hereby does pledge to and hypothecate with, Bankers Trust Company, as trustee, the following described property—hereinafter sometimes termed, collectively, "pledged securities", *viz*:

I. All and singular the bonds and other obligations, with all undetached coupons and interest obligations thereto appertaining, and all and singular the shares of stock of the several corporations, and the certificates thereof with all undetached dividend coupons or rights, herewith delivered to the trustee, and severally scheduled in *Exhibit A* appended hereto and made part hereof. The company represents and covenants that for the purposes of the aforesaid contract between the Government of the French Republic and the company dated July 18, 1916, the values, severally and respectively, of the pledged securities scheduled in *Exhibit A*, have been determined by the company to be the values severally and respectively specified in said *Exhibit A*, the aggregate of such values so scheduled being $3,008,328.

II. Also the sum of $91,993,060 in cash to be held by the trustee as part of the trust estate under this indenture until applied by the trustee as provided in section 1 of article three hereof.

III. Also any and all bonds, obligations, or stocks which, pursuant to the provisions of said section 1 of article three of this indenture, shall be delivered to the trustee upon the release and payment by it of any or all of the cash specified in the preceding part II of these pledging clauses of this indenture.

IV. Also any and all other bonds, obligations, or stocks which shall have been delivered by the Government of the French Republic to the company under the provision in the final paragraph of article fifth of the aforesaid contract between the said Government and the company, in performance of the obligation, in case of depreciation in the value of securities deposited under said contract, to maintain the margin of twenty per cent. referred to in said paragraph; and the company covenants that from time to time, when and as such securities are received from the said Government, the company will deliver and pledge all thereof with the trustee as additional security for the notes issued under this indenture; *subject, however*, to the right of the said Government to detach coupons and rights for dividends and interest as provided in article eleventh of said contract.

V. Also all property of every name and nature, from time to time hereafter, by delivery or by writing of any kind, for the purposes hereof, pledged, assigned, or transferred by the company, or with its written consent by any one in its behalf, to the trustee, which hereby is authorized to receive any property at any and all times, as and for additional security, and also, when and as hereinafter provided, as substituted security, for the payment of the notes issued or to be issued hereunder, and to hold and apply any and all such property according to the terms hereof.

VI. Also all the right, title, and interest of the company in and to the coupons or rights for interest and dividends maturing on or before August 1, 1919, appertaining to the bonds and stocks hereinabove pledged, or hereafter to be pledged as aforesaid, which coupons or rights have been, or will have been, detached from said bonds and stocks prior to the pledge of such bonds and stocks hereunder, and which pursuant to the contract between the Government of the French Republic and the company hereinabove mentioned, have been, or will have been, deposited for account of the company with depositaries in France.

VII. Also all right, title, and interest of the company in and to any moneys paid by the Government of the French Republic to the company, as a consequence of the payment of which such Government shall be entitled to all or any part of the pledged securities.

To have and to hold the same unto said Bankers Trust Company, as trustee, its successors and assigns, forever:

In trust, nevertheless, for the equal and ratable use and benefit of all present and future holders of the notes issued and to be issued under and secured by this indenture, without preference, priority, or distinction as to lien or otherwise of any one note over any other note by reason of priority in the issue, sale, or negotiation thereof or otherwise; so that each and every note issued as aforesaid shall have the same ratable right, lien, and privilege under and by virtue of this indenture, and so that subject to the terms hereof the principal and interest of every such note shall be secured hereby equally and proportionately, as though all had been duly issued, sold and negotiated simultaneously with the execution and delivery of this indenture; it being intended that the lien and security of this indenture shall take effect from the day of the date hereof, without regard to the date of the actual issue, sale, and negotiation of said notes, and as though upon such date all of said notes had been actually sold and delivered to and into the hands of the holders thereof for value; and it being expressly covenanted and declared by the company that all such notes are to be issued, negotiated, sold, and held, and that the said pledged securities, subject to the conditions of the pledge thereof hereunder, are to be held by the trustee, upon and subject to the further trusts, uses, conditions, covenants, and agreements hereinafter set forth; and it is covenanted between the parties hereto and for the benefit of the respective holders from time to time of the notes intended to be secured hereby, as follows, *viz.*:

ARTICLE ONE

SECTION 1. The amount of notes hereby secured, which may be executed by the company, and which may be certified by the trustee, is limited so that never at any time shall there be outstanding notes, hereby secured, for an aggregate principal sum exceeding $94,500,000.

From time to time, the notes to be secured hereby shall be executed by the company, and by it shall be delivered to the trustee, and thereupon, as provided in this article and not otherwise, the trustee shall certify and shall deliver the same.

The notes and the coupons thereto attached respectively shall be substantially of the tenor and purport above recited. The notes each shall be for the principal sum of $100, or of $1,000, or of $5,000, or of $10,000, or of any multiple of $10,000 that shall have been authorized by the company by resolution of its board of directors or of its executive committee.

Each note hereby secured of the denomination of $1,000 shall bear a distinctive serial number, the numbers to be from 1 upwards, consecutively. The notes of the other denominations may be identified by a distinctive number or letter, or both, in accordance with such plan as may be adopted by the company with the approval of the trustee. Unless a different plan be adopted as aforesaid, the notes of denominations other than $1,000 shall have endorsed thereon a notation of the number or numbers of the $1,000 notes in lieu of or in exchange for which such notes of denominations other than $1,000 are issued. The notes of any or all of the denominations, except $100 may have imprinted thereon a legend reciting that the notes of one or more such denominations may be exchanged for an equal aggregate principal amount of notes of one or more lower denominations. The notes may contain such other specifications in the premises as may be required to comply with the rules of any stock exchange, or to conform to usage.

Only such notes as shall bear thereon a certificate, substantially in the form hereinbefore recited, duly executed by the trustee, shall be secured by this indenture, or shall be entitled to any lien or benefit hereunder. Every such certificate of the trustee upon any note executed by the company, shall be conclusive evidence, and the only evidence, that the note so certified has been duly issued hereunder, and is entitled to the benefit of the trust hereby created for the benefit of the holder of such note.

The trustee shall not certify or deliver any note hereby secured, until all coupons thereof then matured shall have been detached and shall have been canceled.

SEC. 2. In case any of the officers who, on behalf of the company, shall have signed any of the notes issued under this indenture, shall die, or shall cease to be such officer of the company, before the notes so signed shall have been actually certified by the trustee, or delivered or sold, nevertheless upon the request of the company, such notes shall be certified and delivered as herein provided, and may be sold or otherwise disposed of by the company, as though the persons who signed and sealed such notes had not died or ceased to be such officers of the company; and also any such note may be signed in behalf of the company by such persons as at the actual date of the execution of the note shall be the proper officers of the company, although on August 1, 1916, any such person shall not have been such officer. The coupons attached to the notes hereby secured shall be authenticated by the facsimile signature of the present treasurer or of any future treasurer of the company, and for that purpose the company may adopt and use the facsimile signature of any treasurer, notwithstanding the fact that at the time when such notes shall be actually certified and delivered or sold he shall have ceased to be the treasurer of the company.

SEC. 3. All the notes authorized to be issued under and secured by this indenture for the aggregate principal sum of $94,500,000 shall be executed by the company and be delivered to the trustee for certification, and as soon as may be after the execution of this indenture, and upon the delivery to the trustee of the pledged securities scheduled in *Exhibit A* hereto annexed and referred to in part I of the pledging clauses of this indenture, and upon payment to the trustee of the sum in cash specified in part II of the pledging clauses of this indenture, shall be certified and be delivered by the trustee upon the written order of the company, signed by its president or vice president or treasurer under its corporate seal, and without any further action on the part of the company.

SEC. 4. Pending the preparation of the definitive notes to be issued under and secured by this indenture, the company may execute and deliver, originally or in exchange, temporary notes without coupons, substantially otherwise in the form of the notes hereinbefore recited, in denominations of $100 or of $1,000 or of any multiple of $1,000, and each of said notes shall be marked "temporary note."

Such temporary notes shall be duly authenticated and delivered by the trustee in the same manner as herein provided in respect of the definitive notes to be issued under this indenture; and such certificate of the trustee shall be conclusive and the only evidence that any such temporary note so certified has been duly issued hereunder, and is entitled to the benefits of the trusts hereby created.

Such temporary notes duly issued and certified hereunder shall be exchangeable, from time to time, at the office of the trustee in the city of New York, without expense to the holder, for definitive notes, secured hereby, of denominations authorized as specified in section 1 of this article, as and when the company shall deliver to the trustee definitive notes for that purpose; and immediately upon such exchange such temporary notes shall be canceled by the trustee and be delivered to the company. Until so exchanged said temporary notes shall in all respects be entitled to the lien and security of these presents.

Without unnecessary delay the company will execute and will furnish engraved definitive notes, to be exchanged for said temporary notes, upon surrender thereof to the trustee.

SEC. 5. In case any note secured hereby or the coupons thereto appertaining shall become mutilated or be destroyed, the company may execute, and, upon its request, the trustee shall certify and deliver, a new note of like tenor and date (including coupons for interest thereon) bearing the same serial number, or, as the case may be, having endorsed thereon the same serial numbers, in exchange and substitution for and upon cancellation of the mutilated note and its coupons, or in lieu of and in substitution for the same destroyed. In case of destruction, the applicant for a substituted note and coupons shall furnish to the company and to the trustee evidence to their satisfaction, in their discretion, of the destruction of such note and its coupons, and also such security or indemnity as shall be required by the company and the trustee.

SEC. 6. Any note issued hereunder and secured hereby of a denomination higher than $100, with all unmatured coupons thereto annexed, may be surrendered to the company at the office of the trustee in the city of New York, in exchange for notes of lower denominations, authorized under this indenture, equal in aggregate face value to the notes so surrendered, and with all unmatured coupons thereto annexed. All notes so surrendered in exchange shall be canceled by the trustee, and be delivered to the company. For any such exchange of notes, the company, at its option, may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge.

SEC. 7. Except as otherwise expressly provided in article five of this indenture, nothing in this indenture, or in the notes secured hereby, expressed or implied, is intended, or shall be construed, to give to any person, firm, or corporation, other than the parties hereto and the holders of said notes, any legal or equitable right, remedy or claim under or in respect of this indenture, or under any covenant, condition or provision herein contained; all its covenants, conditions and provisions being intended to be, and being, for the sole and exclusive benefit of the parties hereto and of the holders of the notes and coupons issued hereunder.

ARTICLE TWO

The company covenants as follows:

SECTION 1. Duly and punctually the company will pay the interest and the principal of the notes issued hereunder at the times and in the manner specified in said notes and in the interest coupons, respectively, without deduction for any tax or taxes, present or future (except any Federal income tax of the United States of America) which the company or the trustee may be required to deduct therefrom.

Sec. 2. From time to time the company promptly shall and will pay and discharge, or cause to be paid and discharged, all taxes, rates, lawful levies or assessments and charges, special or general, ordinary or extraordinary, levied or imposed upon or in respect of the pledged securities held by the trustee in the United States, the lien whereof could be held to be prior or equal to the lien of these presents, so that the same shall not fall into arrears and so that the priority of this indenture of pledge shall be duly preserved: *Provided, however,* That the company, in good faith and by appropriate legal proceedings, shall have the right to contest any such tax, assessment or charge, and pending such contest may delay or defer the payment thereof.

Sec. 3. The company will cause to be delivered at the office of the trustee any and all notes issuable under this indenture which, pursuant to the provisions of article one of this indenture, the company is obligated to deliver in exchange for other notes issued under this indenture.

ARTICLE THREE

Section 1. From time to time upon the written request of the company, accompanied by a certified copy of a resolution of its board of directors or of the executive committee of such board authorizing such request and accompanied also by the certificate provided for in section 5 of this article, the trustee shall release from the lien and operation of this indenture, and shall pay over to the company or upon its order, any or all of the cash paid to the trustee pursuant to the provisions of part II of the pledging clauses of this indenture, upon the delivery to the trustee (*a*) of securities which shall be the obligation (as maker or guarantor) of the government of one of the following countries, viz, Argentina, Sweden, Norway, Denmark, Switzerland, Holland, Uruguay, Egypt, Brazil, or Spain, or (b) of obligations of the Province of Quebec, or (*c*) of shares and bonds of the Suez Canal Company, or (*d*) of shares of stock or bonds of corporations organized in the United States of America, such payment to be at the rate of five dollars in cash for each six dollars in value (certified to the trustee as provided in section 5 of this article) of the securities so delivered: *Provided, however,* That (except as in each instance otherwise may be approved by J. P. Morgan & Co. and Brown Brothers & Co.):

(1) The aggregate value of the said obligations of any one of the abovementioned governments shall not exceed $22,680,000, nor shall such value of the obligations of the Province of Quebec exceed said sum, nor shall such value collectively of the shares and bonds of the Suez Canal Company exceed said sum, nor shall such value collectively of the bonds and shares of said corporations organized in the United States of America exceed said sum; and

(2) The aggregate value of the said obligations of the several governments and of the Province of Quebec shall not be less than the amounts severally and respectively set forth in the following schedule, to wit:

Government of Argentina	$10,250,000
Government of Sweden	4,362,500
Government of Norway	1,645,000
Government of Denmark	3,190,000
Government of Switzerland	6,040,000
Government of Holland	737,500
Government of Uruguay	1,721,500
Government of Egypt	10,100,000
Government of Brazil (funding loan)	590,500
Government of Spain	10,300,000
Province of Quebec	137,500

and until such several amounts of such obligations shall have been delivered to the trustee, pursuant to the provisions of this section and/or pursuant to part I of the pledging clauses of this indenture, the trustee shall hold of the cash above mentioned sums equal to five sixths of the said scheduled amounts of such obligations from time to time remaining to be delivered.

Sec. 2. From time to time upon the written request of the company, accompanied by a certified copy of a resolution of its board of directors or of the executive committee of such board authorizing such request and accompanied also by the certificate provided for in section 5 of this article, the trustee shall release from the lien and operation of this indenture, and shall deliver to the company or upon its order, any of the pledged securities (other than cash) then subject to this indenture which shall be the obligation (as maker or guarantor) of the Government of one of the following countries, viz, Denmark, Norway, Sweden, Holland, Switzerland, Spain, or Egypt; *provided however*, (except as in each instance otherwise may be approved by J. P. Morgan & Co. and Brown Brothers & Co.):

(1) That there always shall remain included in the pledged securities subject to this indenture, such securities of each of said governments of value equal at least to the respective amounts of such securities of such government specified in subdivision (2) of section 1 of this article; and

(2) That contemporaneously with such release there shall be pledged under this indenture, and be substituted for the pledged securities released as aforesaid, other securities of which each shall be such obligation of the government of one of the following countries viz, Denmark, Norway, Sweden, Holland, Switzerland, Spain, or Egypt, and which substituted securities in the aggregate shall be of value equal to or greater than the value of the released pledged securities; and

(3) That the aggregate value of all such obligations of any one of the governments mentioned in subdivision (2) of this section, or of any other issue of securities, shall not be increased by such substitution to an amount which at any such time shall exceed $22,680,000.

Sec. 3. From time to time upon the written request of the company, accompanied by a certified copy of a resolution of its board of directors or of the executive committee of such board authorizing such request and accompanied also by the certificate provided for in section 5 of this article, the trustee shall release from the lien and operation of this indenture, and shall deliver to the company or upon its order, any of the pledged securities (other than cash) subject to this indenture: *Provided, however* (except as in each instance otherwise may be approved by J. P. Morgan & Co. and Brown Brothers & Co.):

(1) That the Government of the French Republic, pursuant to the provisions of article sixth of its aforesaid contract with the company, shall have requested the company to release such pledged securities in anticipation of the maturity of the principal sum thereof; and

(2) That contemporaneously with such release there shall be pledged under this indenture, and be submitted for the pledged securities released as aforesaid, other securities of which each shall be the obligation (as maker or guarantor) of the government of one of the following countries, *viz*, Denmark, Norway, Sweden, Holland, Switzerland, Spain, or Egypt, and which substituted securities in the aggregate shall be of value equal to or greater than the value of the released pledged securities; and

(3) That the aggregate value of all such obligations of any one of the governments mentioned in subdivision (2) of this section, or of any other issue of securities, shall not be increased by such substitution to an amount which at any such time shall exceed $22,680,000.

Sec. 4. In lieu of the substitution of securities under the provisions of section 2 or of section 3 of this article, provided the resolution of the board of directors or of the executive committee of such board shall so specify, the company may deposit with the trustee a sum of money equal at least to the value of the pledged securities released under the provisions of either of said sections.

The company agrees that whenever it shall receive in the city of New York any moneys paid to it by the Government of the French Republic, which under the aforesaid contract between the Government of the French Republic and the company, the company is required to use for that purpose, such moneys shall be forthwith deposited by the company with the trustee to effectuate the release of securities as in this article provided, and in furtherance of the pledge of such moneys made pursuant to part VII of the pledging clauses of this indenture.

Any and all money received by the trustee under the provisions of this section shall be held by it as part of the trust estate, and shall be applied to the purchase and/or redemption of notes outstanding under this indenture in accordance with the provisions of article four of this indenture.

Sec. 5. For (1) any of the purposes of section 1 of this article, the value of the securities deposited pursuant thereto with the trustee, and for (2) any of the purposes of any other of the foregoing sections of this article, the value of the pledged securities released, and the value of the securities substituted therefor, either (*a*) shall be the value placed upon such securities for the purposes of the aforesaid contract between the Government of the French

Republic and the company in case the securities shall be delivered to the trustee under section 1 of this article and the approval of J. P. Morgan & Co. and Brown Brothers & Co. shall not be required therefor under the provisions of said section, or in case the release and substitution be made for any purpose of said contract, or (*b*) shall be the value placed upon such securities jointly by J. P. Morgan & Co. and Brown Brothers & Co. in case the securities shall be delivered to the trustee under section 1 of this article and the consent of said firms to such delivery shall be required under the provisions of said section, and in case the release and substitution of securities be not made for the purposes of such contract. Whether or not any such release and substitution is made for the purposes of such contract, or whether or not request therefor has been made upon the company by the Government of the French Republic, shall be certified in the resolution required in any such instance pursuant to any provision of this article.

Together with each request for payment of cash or the release of pledged securities under any of said sections, there shall be delivered to the trustee either (1) a certificate of the company, dated not more than five days prior to its delivery, respectively specifying, as the case may be, such values of the securities delivered to the trustee, or of the pledged securities to be released and of the securities to be substituted therefor as aforesaid, and setting forth that the values so specified are those upon the basis of which such securities were received by the company, or were released or substituted, as the case may be, under the said contract between the Government of the French Republic and the company; or (2) a certificate addressed to the trustee, signed by J. P. Morgan & Co. and Brown Brothers & Co., dated not more than five days prior to its delivery, containing like specification of the securities delivered to the trustee under section 1 of this article, or of the pledged securities to be released and of the securities to be substituted therefor under section 2 or section 3 of this article. Either such certificate shall be received by the trustee as conclusive evidence of value as specified, but only for the period of ten days after its date, and shall constitute full authority to the trustee for any action thereupon taken by the trustee within such period of ten days.

SEC. 6. The coupons and claims for interest and dividends included in the pledged securities under part VI of the pledging clauses of this indenture, shall be subject to the rights and obligations of the company and/or the Government of the French Republic to deal therewith and with the proceeds thereof as provided in article eleventh (quoted in the preamble of this indenture) of the aforesaid contract between said Government and the company. The release of any pledged securities shall be deemed to release all coupons and claims for interest and dividends appertaining thereto. Coupons appertaining to substituted or additional securities may be detached and deposited in France as provided in said article eleventh of said contract.

SEC. 7. From time to time upon the written request of the company, accompanied by a certified copy of a resolution of its board of directors or of the executive committee of such board authorizing such request, and upon payment to the trustee of a sum in cash to be applied to the redemption (by call or purchase) of notes on or before the next ensuing interest day on which notes may be so redeemed with such cash pursuant to the provisions of article four of this indenture, or in lieu of such cash upon tender to the trustee for cancellation of notes issued under this indenture, then the trustee shall release from the lien and operation of this indenture, and shall deliver to the company or upon its order, such part of each issue of the pledged securities then held by the trustee as shall bear to the whole of such issue so held by the trustee, approximately the same proportion as the principal amount of notes redeemable by such cash so paid to the trustee, or the principal amount of the notes so delivered to the trustee for cancellation, or the aggregate of such notes so redeemable and such notes so delivered, as the case may be, shall bear to the aggregate principal amount of the notes at the time outstanding under this indenture. The approximation of the proportion of the securities to be released pursuant to the provisions of this section shall be made by the trustee in the exercise of its sole judgment.

SEC. 8. For any purpose of this article, any request or certificate of the company, or statement of any matter of fact, shall be sufficiently evidenced to the trustee if made in writing under the corporate seal signed by any one of the following officers of the company, viz: The president, chairman of the executive committee, any vice president, or the treasurer.

Any certificate, consent, or approval by J. P. Morgan & Co. and by Brown Brothers & Co., or either of them, required to be furnished to the trustee under any provision of this article, may be made in one or more writings signed in the name of such firms respectively. Any and all rights and powers of said J. P. Morgan & Co. and of said Brown Brothers & Co., or either of them, shall vest in the co-partnership or firm doing business under such name, and shall pass to and vest in the successors of such firms as from time to time constituted, doing business as such successors repectively.

Neither the firm of J. P. Morgan & Co. nor the firm of Brown Brothers & Co. nor any member of either of said firms shall in any event or in any manner be liable for or because of any act done or omitted to be done, or any certificate, approval, or consent given or withheld hereunder, nor shall any member of either of said firms be liable for the acts, consents, or omissions of any other member or otherwise than each for his own individual bad faith or misconduct hereunder. Each of said firms or the members thereof may become holders of notes issued hereunder or stockholders of the company, and no action, determination, or consent of said firms shall be affected by reason thereof, or by reason of the fact that any members of said firms may be officers, directors, or voting trustees of stock of the company, nor for any of said reasons shall either of said firms be disqualified from acting hereunder. Neither this indenture nor any consent given or withheld by said firms or either of them shall create any fiduciary or other relation, legal or equitable, on the part of said firms or any member of either of them to the trustee or to the holders of notes or coupons issued hereunder.

Sec. 9. Unless and until there shall be some default known to the trustee (1) in the payment of any interest on any of the notes secured by this indenture and such default shall have continued for a period of sixty days; or (2) in the due and punctual payment of the principal of any note hereby secured when the same shall have become payable; or (3) in the due observance and performance of any other covenant or condition herein required to be kept or performed by the company, and such last mentioned default shall have continued for a period of sixty days after written notice thereof shall have been given by the trustee to the company—the company shall have the right to vote upon, or to give any consent in respect of, all shares of stock subject to this indenture for all purposes not inconsistent with the provisions or purposes hereof and with the same force and effect as though such shares were not subject hereto; and from time to time, upon request of the company, the trustee, except upon the occurrence and continuance of default as aforesaid, shall forthwith execute and deliver to the company or to its nominees specified in such request, suitable powers of attorney or proxies, with power of substitution, to vote upon, or to give any consent in respect of, any shares of stock which shall have been transferred into the name of the trustee or its nominee or nominees: *Provided, however*, That the trustee shall not be required to give any such power of attorney or proxy to vote in respect of any such stock, unless the same be limited to be used only at some particular meeting or an adjournment or adjournments thereof.

The trustee shall be protected in the giving of any proxy or proxies, or powers of attorney, to the company hereunder, if upon the face thereof such proxies or powers of attorney shall not be contrary to the provisions of this indenture and each thereof shall contain a specific statement to the effect that it is not to be used or voted upon for any purpose inconsistent with the provisions or intent hereof. The trustee shall not be responsible for any abuse or mistake in the construction of any such proxy or power of attorney so given by it.

Sec. 10. Unless and until there shall be some default known to the trustee (1) in the payment of any interest on any of the said notes secured by this indenture and such default shall have continued for a period of sixty days; or (2) in the due and punctual payment of the principal of any note hereby secured when the same shall have become payable; or (3) in the due observance and performance of any other covenant or condition herein required to be kept or performed by the company, and such last mentioned defaults shall have continued for a period of sixty days after written notice thereof shall have been given by the trustee to the company; the company shall be entitled to retain for its own use any interest, dividends, or other income of the pledged securities which may come into its hands, and the trustee promptly shall pay over to the company such interest, dividends, or other income which it may receive, and shall deliver to the company for collection any coupons and rights for interest and dividends which may become due or payable and which at the time the trustee may have in its possession. Any moneys so received by the company or by the trustee in payment or as proceeds of coupons and rights for interest or dividends deposited in France pursuant to the provisions of article eleventh of the aforesaid contract between the Government of the French Republic and the company, in case under the provisions of the said contract the company shall become entitled to receive the same, shall be deemed to be income of the pledged securities.

SEC. 11. All of the pledged securities deposited with the trustee hereunder may at all times remain in the forms in which the same shall be deposited, and need not be transferred into the name of the trustee. All such pledged securities which shall be registered at the time of such deposit shall be accompanied by instruments of assignment or transfer thereof in blank, but the trustee shall be under no duty or obligation to see or inquire into the sufficiency of any such instrument of assignment or transfer.

ARTICLE FOUR

SECTION 1. Any or all of the notes hereby secured shall be subject to redemption, and may be redeemed, at the option of the company, on any interest-payment date prior to maturity, upon advertisement of notice of redemption as in this article provided, and upon payment to the trustee of an amount, which together with any other moneys applicable to the purpose and held by the trustee, shall equal the principal amount of such notes to be redeemed, and the premium payable on the particular redemption date as below set forth, and a further amount equal to the interest which shall have accrued and be unpaid thereon up to the date fixed for such redemption as hereinbelow provided. If the redemption be made February 1, 1917, the premium shall be one and one-half per cent (1½%) of the principal amount; if the redemption be made on August 1, 1917, or on February 1, 1918, the premium shall be one per cent (1%) of the principal amount; and if the redemption be made on August 1, 1918, or on February 1, 1919, the premium shall be one-half of one per cent (½%) of the principal amount. Each and every holder of any note issued under this indenture hereby agrees to accept payment thereof at such rate upon any such date of redemption.

Unless default shall be made in the payment upon presentation of any notes mentioned in any notice of redemption given pursuant to this article, all interest after the date of redemption designated in said notice shall cease to accrue upon such notes, and the coupons for interest maturing subsequent to said date of redemption shall become and be void.

Upon the receipt by the trustee of moneys applicable to the redemption of notes secured by this indenture, and subject to the provisions of section 2 of this article, the trustee shall apply such moneys to the redemption of such notes as hereinafter provided.

The trustee at the expense of the company, shall publish once in each week for four successive calendar weeks in one newspaper published in the Borough of Manhattan, City of New York, a notice of redemption, stating that upon presentation and surrender to the trustee on the interest-payment date therein specified (which date shall not be sooner than thirty days after the first publication of such notice), of the notes to be redeemed (bearing all unpaid coupons), payment of the principal amount and premium and of the accrued interest to such date of redemption, will be made upon such designated date.

If the moneys applicable to the redemption of notes be less than the amount required to redeem all such notes at the time outstanding, the trustee, prior to such publication of notice of redemption, shall draw by lot notes hereby secured for such principal amount as the moneys in its hands available for the purpose shall suffice to redeem on the date appointed, and the notice of redemption to be published as aforesaid shall specify the numbers of the notes to be redeemed as determined by such drawing. Such drawing by lot by the trustee shall be conducted in such manner and according to such method as it may deem proper. The trustee in such drawings may adopt the following system: All drawings of $1,000 and $100 notes shall be made by reference to the serial numbers borne by the $1,000 notes and the serial numbers of $1,000 notes endorsed upon $100 notes; the ten $100 notes issued in lieu of or in exchange for any $1,000 note, shall be drawn collectively; to avoid the redemption in part of any notes of denominations greater than $1,000, the trustee in any drawing for redemption may apportion to the aggregate amount of notes of each such denomination such part of the funds available for redemption as shall bear to the entire amount of such funds the same proportion that the aggregate amount of notes of such denomination shall bear to the aggregate amount of all the notes then outstanding, and a separate drawing of the notes of each such denomination greater than $1,000 shall be made for such amounts as the moneys apportioned to such denomination shall suffice to pay at the redemption rates above specified.

To the extent of any moneys at any time thereafter in the trustee's possession, upon surrender to it of any such designated note, bearing coupons as aforesaid, the trustee shall receive the same and shall pay therefor the principal amount, the premium payable on the designated redemption date as hereinabove provided, and the accrued interest thereon up to such date.

If upon the presentation of any note for redemption pursuant to the provisions of this section, there shall not be presented with such note all unpaid coupons maturing on and prior to the date designated for such redemption, the trustee shall receive such note, together with all coupons maturing after such designated date, and out of the redemption money held by it as aforesaid, shall pay therefor a sum equal to the principal thereof and the premium, and shall retain the amount applicable to the payment of interest represented by the coupon or coupons maturing on or prior to the redemption date so designated and not presented with the note, and shall hold and apply such last mentioned sum in trust for and to the payment of such coupon or coupons upon surrender thereof to the trustee by the company or by any holder thereof.

A copy of any notice of redemption published pursuant to the provisions of this article, shall be mailed by the trustee to the holder of any note designated for redemption who shall have furnished to the trustee his post-office address for such purpose.

In every case where any such redemption day shall be a legal holiday, payment of the principal, premium, and interest due on the notes called for redemption on such day may be made on the next succeeding day not a legal holiday, with the same force and effect as if made on the nominal interest day.

SEC. 2. In case moneys applicable to the redemption of notes secured by this indenture shall be received by the trustee on a date more than thirty-five (35) days prior to the next ensuing interest date upon which notes may be called for redemption pursuant to the provisions of section 1 of this article, then until the beginning of such thirty-five (35) day period prior to such redemption date, the trustee, in such manner and from time to time in such amounts as the company shall direct by resolution of its board of directors or of the executive committee of such board, shall use and apply such moneys so far as the same shall be adequate to the purchase and payment of notes of any denomination (including all unmatured coupons thereunto belonging) hereby secured at the lowest price found by the trustee to be available but not greater than the redemption price at which notes may be called for redemption on such next ensuing redemption date as hereinabove set forth. The trustee need make no public or general invitation for tenders of notes, nor give public notice before making such purchases. To the extent that such moneys so applicable to the purchase of notes shall not be used in such purchase as aforesaid, such moneys, together with any other moneys that may be received by the trustee for such purpose, shall be applied by the trustee to the redemption of notes as provided in section 1 of this article.

SEC. 3. All notes redeemed or purchased as hereinbefore provided forthwith shall be canceled by the trustee and be delivered to the company.

ARTICLE FIVE

It is agreed between the company and the trustee and the holders of the notes and coupons at any time outstanding under this indenture that the rights and remedies of the trustee and of the holders of notes and coupons under the provisions of this article five of this indenture, and the enforcement of any and all such rights and remedies, are subject to the rights and privileges reserved to the Government of the French Republic under the provisions quoted in the preambles to this indenture of articles ninth and tenth or either of such articles of the aforesaid contract between such government and the company.

SECTION 1. In case of default shall be made in the payment of any interest on any of the notes issued hereunder, and any such default shall continue for a period of sixty days,—then and in such case the trustee may, and, upon the written request of the holders of twenty-five per cent in principal amount of the notes hereby secured at such time outstanding, the trustee shall declare the principal of all notes then outstanding hereunder to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this indenture or in said notes contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of said notes shall have been so declared due and payable, and before any sale of the pledged securities or any thereof shall have been made pursuant to the provisions of section 2 of this article, all arrears of interest upon all such notes shall be paid by the company and the company also shall have remedied any and every default by it theretofore made under this indenture; then and in every such case the holders of a majority in principal amount of the notes hereby secured then outstanding, by written notice to the company and to the trustee, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon.

In case the trustee shall have proceeded to enforce any right under this indenture, and any such proceeding shall have been discontinued or abandoned because of such waiver, or for any other reason, or shall have been determined adversely to the trustee, then and in every such case the company and the trustee shall be restored respectively to their several positions and rights hereunder in respect of the pledged securities, and all rights, remedies and powers of the trustee shall continue as though no such proceeding had been taken.

Sec. 2. In case (1) default shall be made in the payment of any interest on any of the notes issued hereunder and any such default shall continue for a period of sixty days; or in case (2) default shall be made in the due and punctual payment of the principal of any of said notes; or in case (3) default shall be made in the due observance and performance of any other covenant or condition herein required to be kept or performed by the company, and any such last-mentioned default shall have continued for a period of sixty days after written notice thereof from the trustee to the company,—then, and in each and every such case of default (*a*) the trustee, personally or by attorney, may sell either all, or from time to time any part, of the pledged securities, and all right, title and interest, claim and demand therein, and right of redemption thereof, which sale or sales shall be made at public auction at the place or places and at the time or times and upon the terms which the trustee may fix and briefly specify in the notice or notices of sale to be given as hereinafter in this section provided; or (*b*) the trustee may proceed to protect and to enforce its rights and the rights of noteholders under this indenture, by a suit or suits in equity or at law, whether for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the foreclosure of this indenture or the enforcement of any other appropriate legal or equitable remedy, as the trustee, being advised by counsel learned in the law, shall deem most effectual to protect and enforce any of its rights or duties hereunder.

Any sale pursuant to the provisions of this section, whether made under the power of sale herein granted, or under or by virtue of judicial proceedings, may be made in one or more lots as the trustee shall determine, or as may be requested by the holders of twenty-five percent of the principal amount of the notes at the time outstanding, and shall be made either in the city of New York, State of New York, or in the city of Paris, France, or in the city of London, England, or in part in one and in part in either or each of the other of said cities; and the notice of any such sale shall contain a brief general description of the pledged securities to be sold at each such sale, a statement of the time or times of each such sale, and a specification of the terms of sale, and shall be sufficiently given if published once in each week for four successive calendar weeks prior to any such sale, in two (2) newspapers published in the borough of Manhattan, city of New York, State of New York, and also as follows:

Notice of such sale also shall be given in writing by the trustee to the Government of the French Republic delivered or sent, as provided in article sixteenth of the aforesaid contract between the Government of the French Republic and the company quoted in the preambles of this indenture, at a time not less than thirty days previous to any sale made under any of the provisions of this indenture.

From time to time, any sale to be made under the provisions of this indenture may be adjourned by announcement at the time and place appointed for such sale or for such adjourned sale or sales; and without further notice or publication, such sale may be made at the time and place to which the same shall have been so adjourned.

SEC. 3. Upon the written request of the holders of twenty-five per cent in principal amount of the notes hereby secured, in case of the occurrence and the continuance of default as aforesaid, it shall be the duty of the trustee, upon being indemnified as hereinafter provided, to take all steps needful for the protection and enforcement of its rights and the rights of the holders of the notes hereby secured, or to take appropriate judicial proceedings by action, suit, or otherwise, as the trustee, being advised by counsel learned in the law, shall deem most expedient in the interest of the holders of the notes hereby secured; but anything in this indenture to the contrary notwithstanding, the holders of a majority in principal amount of the notes hereby secured and then outstanding from time to time shall have the right to direct whether the trustee shall proceed to sell all or any of the pledged securities, or shall proceed by suit in equity or action at law, or both, and to direct and to control the method and place of conducting any proceedings for any sale of the pledged securities, or for the foreclosure hereof, or for a receiver, or any other proceedings hereunder; but they shall have no right or power to involve the trustee in any personal liability of any kind to anybody, without first and from time to time indemnifying it to its satisfaction, and the trustee shall have the right to decline to follow any such direction which in its opinion, or as it may be advised, would be unjustly prejudicial to nonassenting noteholders.

SEC. 4. Upon completion of any sale or sales under this indenture, the trustee shall assign or transfer to the accepted purchaser or purchasers such of the pledged securities as shall have been sold to such purchaser or purchasers, and such assignment or transfer shall be conclusive evidence of the validity of the transfer thereby effected. The trustee and its successors hereby are appointed the true and lawful attorney and attorneys irrevocable of the company, in its name and stead, to make all necessary assignments and transfers of the pledged securities thus sold; and for that purpose it and they may execute all necessary acts of assignment and transfer and may substitute one or more persons with like power; the company hereby ratifying and confirming all that its said attorney or attorneys or such substitute or substitutes shall lawfully do by virtue hereof.

SEC. 5. The receipt of the trustee for the purchase money shall be sufficient discharge therefor to any purchaser of the pledged securities or any part thereof sold as aforesaid; and no such purchaser or his representatives, grantees, or assigns, after paying such purchase money and receiving such receipt, shall be bound to see to the application of such purchase money upon or for any trust or purpose of this indenture, or shall in any manner whatsoever be answerable for any loss, misapplication or nonapplication of any such purchase money or any part thereof, or shall be bound to inquire as to the authorization, necessity, expediency, or regularity of any such sale or sales.

SEC. 6. In case of any such sale, whether made under power of sale in this article granted or pursuant to judicial proceedings, the whole of the principal sums of the notes hereby secured, if not previously due, shall at once become due and payable, anything in said notes or in this indenture to the contrary notwithstanding.

SEC. 7. The purchase money, proceeds or avails of any such sale, whether under the power of sale hereby granted or pursuant to judicial proceedings, or the proceeds of any payment made by the Government of the French Republic pursuant to the aforesaid contract between said Government and the company, together with any other moneys that then may be held by the trustee under this indenture, shall be applied as follows:

First. To the payment of the costs and expenses of such sale. Such costs and expenses shall include a reasonable compensation to the trustee, its agents, attorneys, and counsel, all expenses, liabilities, and advances made or incurred by the trustee under this indenture, and the payment of all taxes, assessments, or liens prior to the lien of these presents, except any taxes, assessments, or other superior liens subject to which such sale shall have been made.

Second. To the payment of the whole amount then owing or unpaid upon the notes hereby secured for principal and interest, including interest at the rate of 6 percent per annum on principal after maturity and on overdue coupons; or in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon said notes, then to the payment of such principal and interest, ratably, without preference or priority of principal over interest, or of interest over principal, or of any instalment of interest over any other instalment of interest.

Third. To the payment of the surplus, if any, to the company, its successors, or assigns, or to whosoever shall be lawfully entitled to receive the same. In accordance with said contract between the Government of the French Republic and the company above referred to, and on the conditions therein stated, such surplus, if any, may become payable to the Government of the French Republic.

SEC. 8. Upon any such sale by the trustee or pursuant to judicial proceedings, the trustee or any noteholder or any other person or the Government of the French Republic may bid for and may purchase the pledged securities offered for sale, or any part thereof, for itself or himself and without accountability in respect thereof, except for payment of the purchase price; and in settlement or payment of the purchase price of the pledged securities purchased, any purchaser shall be entitled to use and apply any notes, and any matured and unpaid coupons and claims for interest hereby secured, by presenting such notes and coupons in order that there may be credited thereon the sums applicable to the payment thereof under section 7 of this article; and thereupon such purchaser shall be credited, on account of such purchase price payable by him, with the sums so applicable to the payment of and credited on, the notes and coupons so presented.

SEC. 9. The company covenants that (1) in case default shall be made in the payment of any interest on any note at any time outstanding and secured by this indenture, and such default shall continue for a period of sixty days, or (2) in case default shall be made in the payment of the principal of any such note when the same shall become payable, whether at the maturity of said notes or by declaration as authorized by this indenture or upon a sale as mentioned in section 6 of this article; then, upon demand of the trustee, the company will pay to the trustee, for the benefit of the holders of the notes hereby secured, then outstanding, the whole amount which then shall have become due and payable on all such notes then outstanding for interest or principal or both as the case may be, including interest at the rate of six per cent per annum on principal after maturity and on overdue coupons; and in case the company shall fail to pay the same forthwith upon such demand, the trustee in its own name, and as trustee for an express trust, shall be entitled to recover judgment for the whole amount so due and unpaid.

The trustee shall be entitled to recover judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of the lien of this indenture upon the pledged securities, and the right of the trustee to recover such judgment shall not be affected by any sale hereunder, or by the exercise of any other right, power, or remedy for the enforcement of the provisions of this indenture; and in case of a sale as provided in this article of the pledged securities, and of the application of the proceeds of sale to the payment of the notes secured hereby, the trustee, in its own name and as trustee of an express trust, shall be entitled for the benefit of the holders thereof, to enforce payment of and to receive all amounts then remaining due and unpaid for principal and interest as aforesaid, upon any and all of the said notes then outstanding, and to recover judgment for any portion of the debt remaining unpaid, with interest. No recovery of any such judgment by the trustee, and no levy of execution upon any such judgment upon the pledged securities or upon any other property, shall in any manner or to any extent affect the lien of this indenture upon the pledged securities or any part thereof, or any rights, powers, or remedies of the trustee hereunder, but such lien, rights, powers, and remedies of the trustee and of the noteholders shall continue unimpaired as before.

Any moneys thus collected by the trustee under this section (less expenses, trustee's compensation and indemnification and other proper deductions), shall be applied by the trustee toward payment of the amounts then due and payable upon such notes ratably and without any preference or priority of any kind upon presentation of the respective notes and stamping such payments thereon, if partly paid, or upon cancellation thereof, if paid in full.

SEC. 10. No holder of any note hereby secured shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of this indenture, or for the execution of any trust hereof, or for the appointment of a receiver, or for any other remedy hereunder, unless such holder previously shall have given to the trustee written notice of such default and of the continuance thereof, as hereinbefore provided; nor unless, also, the holders of twenty-five percent in principal amount of the notes hereby secured, then outstanding, shall have made written request to the trustee, and shall have afforded to it a reasonable opportunity either to proceed to exercise the powers hereinbefore granted, or to institute such action, suit, or proceeding in its own name, nor unless, also, they shall have offered to the trustee security and indemnity satisfactory to it, against the costs, expenses, and liabilities to be incurred therein or thereby; and such notification, request, and offer of indemnity are hereby declared, in every such case, at the option of the trustee, to be conditions precedent to the execution of the powers and trusts of this indenture, and to any action or cause of action, or for any remedy hereunder, it being understood and intended that no one or more holders of notes and coupons shall have any right in any manner whatever to affect, disturb, or prejudice the lien of this indenture by his or their action, or to enforce any right hereunder, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had, and maintained in the manner herein provided and for the equal benefit of all holders of such outstanding notes and coupons.

All rights of action under this indenture, or under any of said notes, may be enforced by the trustee without the possession of any such notes, or the production thereof on the trial or other proceedings relative thereto, and any such suit or proceedings instituted by the trustee shall be brought in its name as trustee, and any recovery of judgment shall be for the ratable benefit of the holders of said notes.

Sec. 11. No delay or omission of the trustee, or of any holder of any note hereby secured, to exercise any right or power accruing upon any default occurring and continuing as aforesaid, shall impair any such right or power, or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by this article to the trustee, or to the noteholders, may be exercised from time to time, and as often as shall be deemed expedient, by the trustee or by the noteholders.

Sec. 12. The company will not at any time insist upon or plead, or in any manner whatever claim or take, any benefit or advantage of any stay or extension law now or at any time hereafter in force, nor will it claim, take, or insist upon any benefit or advantage from any law now or hereafter in force providing for the valuation or appraisement of the pledged securities, or any part thereof, prior to any sale or sales thereof to be made pursuant to any provision of this indenture or to the decree, judgment, or order of any court of competent jurisdiction; nor, after any such sale or sales, will it claim to exercise any right under any statute now or hereafter made or enacted by the United States of America or by any State or Territory or otherwise; to redeem the pledged securities so sold, or any part thereof; and it hereby expressly waives all benefit and advantage of any and all such law or laws, and it covenants that it will not hinder, delay, or impede the execution of any power herein granted and delegated to the trustee, but that it will suffer and permit the execution of every such power as though no such law or laws had been made or enacted.

Sec. 13. Except as herein expressly provided to the contrary, no remedy herein conferred upon or reserved to the trustee, or to the holders of the notes, is intended to be exclusive of any other remedy or remedies, but each every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder, or now or hereafter existing at law or in equity or by statute.

ARTICLE SIX

No recourse under or upon any obligation, covenant, or agreement of this indenture, or of any note hereby secured, or because of the creation of any indebtedness hereby secured, shall be had against any incorporator, stockholder, officer, or director of the company, or of any successor corporation, either directly or through the company, by the enforcement of any assessment or by any legal or equitable proceeding by virtue of any statute or otherwise: it being expressly understood that this indenture, and the obligations, hereby secured, are solely corporate obligations, and that no personal liability whatever shall attach to, or be incurred by, the incorporators, stockholders, officers, or directors of the company, or of any successor corporation, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants, or agreements contained in this indenture, or in any of the notes hereby secured, or implied therefrom; and that any and all personal liability of every name and nature, either at common law or equity, or by statute, of, and any and all rights and claims against, every such incorporator, stockholder, officer, or director, are hereby expressly waived as a condition of, and as a consideration for, the execution of this indenture, and the issue of such notes.

ARTICLE SEVEN

SECTION 1. Any request or other instrument, provided by this indenture to be signed and executed by noteholders, may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such noteholders in person or by agent appointed in writing. Proof of the execution of any such request or other instrument, or of a writing appointing any such agent, and of the holding by any person of any of said notes, shall be sufficient for any purpose of this indenture, and shall be conclusive in favor of the trustee and the company with regard to due action taken by them or either of them under such request or other instrument, if made in the manner specified in this article.

The fact and date of the execution by any person of any such request, or other instrument, or writing, may be proved by the certificate of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in New York, that the person whose name was subscribed to such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness to such execution.

The fact of the holding of any of said notes by any person executing any such request or other instrument as a noteholder, and the amounts and distinctive serial numbers of the notes held by such person, and the date of his holding the same, may be proved by a certificate executed by any trust company, bank, bankers, or other depositary (wherever situated), if such certificate shall be deemed by the trustee to be satisfactory, showing therein that at the date therein mentioned such person had on deposit with such depositary, or had exhibited to it, the notes described in such certificate. Until the trustee shall be expressly notified in writing to the contrary, the trustee, in taking any action on the faith of any such certificate, may deem that the holding of notes hereby secured, as specified in such certificate, has continued.

SEC. 2. The company and the trustee may deem and treat the bearer of any note or of any coupon, hereby secured, as the absolute owner of such note or coupon, as the case may be, for the purpose of receiving payment thereof and for all other purposes; and neither the company nor the trustee shall be affected by any notice to the contrary.

ARTICLE EIGHT

If, when all the notes hereby secured shall have become due and payable, or within five days before, the company well and truly shall pay, or shall cause to be paid, the whole amount of the principal moneys (and premium, if any) and the interest due or to become due upon all of such notes, or shall provide for such payment by depositing with the trustee for the payment of such notes and coupons, the entire amount then due or to become due thereon for principal (and premium, if any) and interest, and also shall pay, or shall cause to be paid, all other sums payable hereunder by the company, and well and truly shall keep and perform all the things herein required to be kept and performed by it according to the true intent and meaning of this indenture, then, and in that case, all stocks, bonds, and other securities subject to this indenture shall revert to the company, and the estate, rights, title, and interest of the trustee shall thereupon cease, determine, and become void, and in such case the trustee, on demand of the company, and at its cost and expense, shall execute proper instruments, acknowledging satisfaction of and discharging this indenture, and shall redeliver to the company, or upon its order, the pledged securities then held by the trustee hereunder, accompanied by proper instruments of assignment and transfer; otherwise this indenture shall be, continue, and remain in full force and virtue.

ARTICLE NINE

SECTION 1. The trustee shall not be answerable for the default or misconduct of any agent or attorney appointed by it in pursuance hereof, if such agent or attorney shall have been selected with reasonable care; or for anything whatever in connection with this trust, except wilful misconduct or gross negligence. The trustee shall not be under any obligation to take any action towards the execution or the enforcement of the trusts hereby created, which, in its opinion, will be likely to involve it in expense or liability, unless one or more of the holders of the notes hereby secured shall, as often as required by the trustee, furnish indemnity satisfactory to the trustee against such expense or liability; nor shall the trustee be required to take notice of any default hereunder, or any default in any indenture under which any of the pledged securities were issued, or be deemed to have notice of any such default, unless notified in writing of such default by the holders of at least five percent of the principal amount of the notes hereby secured then outstanding, or be required to take action in respect of any default unless requested to take action in respect thereof by a writing signed by the holders of not less than twenty-five percent of the principal amount of the notes hereby secured, then outstanding, and tendered satisfactory indemnity as aforesaid, anything herein contained to the contrary notwithstanding; but the foregoing provisions of this section are intended only for the protection of the trustee, and shall not be construed to limit or to affect any discretion or power by any provision of this indenture given to the trustee to determine whether or not it shall take action in respect of any default, or any power or discretion of the trustee to take action in respect of any default without such notice or request from noteholders.

Any action taken by the trustee upon the request of any person who at the time is the owner or holder of any such note or coupon, shall be conclusive and binding upon all future owners and holders of the same note or coupon.

The trustee shall incur no liability to anybody in acting upon any notice, request, consent, certificate, note, bond, document, or paper believed by it to be genuine and to have been signed by the proper person.

The recitals and statements herein and in said notes contained are and shall be taken as statements by the party of the first part alone and shall not be considered as made by or as imposing any obligation or liability upon the trustee, nor shall the trustee be held responsible for, and it makes no representation in respect of, the legality or validity of said notes, or of this indenture, or of any of the pledged securities, or the validity of such pledged, or the sufficiency of the security afforded thereby.

The trustee may become the owner of notes secured hereby with the same rights which it would have if it were not trustee, and at any public sale of the stocks, bonds, or other securities pledged as collateral hereunder, may become the purchaser thereof without any accountability or responsibility except for the payment of the purchase price.

The trustee, in its discretion, may advise with legal counsel to be selected and employed by it at the expense of the company, and anything done or suffered in good faith by the trustee in accordance with the opinion of counsel shall be conclusive in favor of the trustee as against the company and all holders of notes secured hereby.

The trustee shall be entitled to reasonable compensation for all services rendered by it in the execution of the trusts hereby created, and the company agrees to pay such compensation as well as all expenses necessarily incurred or disbursed by the trustee hereunder, from time to time upon demand; and for payment of such compensation and expenses and proper indemnification the trustee shall have a lien on all the property pledged hereunder, or which at any time hereafter may be pledged hereunder, paramount to the lien of the notes hereby secured.

The trustee shall be under no duty or obligation to see to the application of the proceeds of any note issued under this indenture, or to take any steps towards procuring the deposit with it or for its account of any coupons or claims for interest or dividends held in France, in the event of a default hereunder.

The trustee shall be under no duty at any time to record this indenture or to file or refile the same as a chattel mortgage or otherwise.

In all cases where this indenture does not make other express provision as to the evidence on which the trustee may act or refrain from acting, the trustee shall be protected in acting or refraining from acting under any provision of this indenture in reliance upon a certificate as to the existence or nonexistence of any fact or facts, signed by the president or a vice-president of the company, and by its treasurer or secretary.

The trustee shall allow interest at the rate of two per cent per annum upon all moneys received by it under any provision of this indenture, until it is required to pay out the same conformably herewith. So long as there shall exist no default in the payment of the principal or interest of the notes hereby secured, all interest allowed on any such moneys so deposited may be paid from time to time to the company, or upon its order.

Any notice required or provided by this indenture to be given by the trustee to the company shall be sufficiently given if delivered or mailed to it at No. 7 West 10th Street, Wilmington, Delaware.

SEC. 2. The trustee, or any trustees hereafter appointed, may resign and may be discharged of the trusts created by this indenture, by giving notice thereof to the company and to the noteholders, by publication, at least twice a week, for two successive calendar weeks, in one newspaper at that time published in the Borough of Manhattan, City of New York, State of New York.

Such resignation shall take effect on the day specified in such notice, unless previously a successor trustee shall have been appointed as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment of a successor trustee.

Any trustee may be removed at any time by an instrument in writing under the hands of three-quarters in interest of the holders of the notes hereby secured, then outstanding.

SEC. 3. In case at any time said trustee, or any trustee hereafter appointed, shall resign or shall be removed or otherwise shall become incapable of acting, a successor or successors may be appointed by the holders of a majority in principal amount of the notes hereby secured then outstanding, by an instrument or concurrent instruments signed by such noteholders or their attorneys-in-fact duly authorized: *Provided, nevertheless*, And it is hereby agreed and declared that, in case at any time there shall be a vacancy in the office of trustee hereunder, the company, by an instrument executed by order of its board of directors, may appoint a trustee to fill such vacancy until a new trustee shall be appoitned by the noteholders as herein authorized. Thereupon the company shall publish notice of such appointment once a week for two successive calendar weeks in a newspaper published in the Borough of Manhattan, city of New York, State of New York, but any new trustee so appointed by the company shall immediately and without further act be superseded by a trustee appointed in the manner above provided by the holders of a majority in principal amount of the notes hereby secured, if such appointment by noteholders be made prior to the expiration of one year after the last publication of such notice. Every such trustee appointed in place of Bankers Trust Company or its successor in the trust, shall always be a trust company in good standing, having a capital and surplus aggregating at least $1,000,000 if there be such a trust company willing and able to accept the trust upon reasonable or customary terms.

Any such new trustee appointed hereunder shall execute and acknowledge, and shall deliver to the trustee last in office, and also to the company, an instrument accepting such appointment hereunder, and thereupon such new trustee, without any further act, deed, or conveyance, shall become vested with all the estates, properties, rights, powers, trusts, duties, and obligations of its predecessors in the trust hereunder with like effect as if originally named as trustee herein; but nevertheless, on the written request of the new trustee, the trustee ceasing to act shall execute and deliver an instrument transferring to such new trustee, upon the trusts herein expressed, all the estates, properties, rights, powers, and trusts of the trustee so resigning or removed, and shall duly assign, transfer, and deliver all the stocks, bonds, and other securities pledged hereunder, and all other property and moneys held hereunder by such trustee, to the new trustee so appointed in its place, *subject, nevertheless*, to any lien which the retiring trustee may have pursuant to any provision hereof. Upon requests of any such new trustee, the company shall make, execute, acknowledge, and deliver any and all assignments, conveyances, or instruments in writing for more fully and certainly vesting in and confirming to such new trustee all such property, rights, powers, and duties.

ARTICLE TEN

SECTION 1. All the covenants, stipulations, promises, and agreements in this indenture contained, by or in behalf of the company, shall bind its successors and assigns, whether so expressed or not.

SEC. 2. In case the company shall be consolidated or merged with any other corporation, or shall sell, convey, and transfer to another corporation, its property as an entirety, the successor corporation formed by such consolidation, or into which the corporation shall have been merged, or which shall have purchased and received a conveyance and transfer, as aforesaid—upon executing an instrument satisfactory to the trustee, whereby such successor corporation shall assume the due and punctual payment of the principal and interest of the notes hereby secured, and the performance of all the covenants and conditions of this indenture—shall succeed to, and be substituted for, the company, party of the first part hereto, with the same effect as if it had been named herein as such party of the first part; and such successor corporation thereupon may cause to be signed, and may issue, either in its own name or in the name of the party hereto of the first part, any or all of such notes which theretofore shall not have been signed to by the said party of the first part and delivered to the trustee; and, upon the order of said successor corporation, in lieu of the company, and subject to all the terms, conditions, and restrictions herein prescribed the trustee shall certify and shall deliver any of such notes which previously shall have been signed and delivered by the officers of the company to the trustee for certification and any of such notes which such successor corporation thereafter shall cause to be signed and delivered to the trustee for that purpose. All the notes so issued shall have in all respects the same legal rank and security as the notes theretofore or thereafter issued in accordance with the terms of this indenture, as though all of such notes had been issued at the date of the execution hereof.

SEC. 3. For every purpose of this indenture, including the execution, issue, and use of any and all notes hereby secured, the terms "company" and "American Foreign Securities Company" include and mean not only the party of the first part hereto, but also any such successor corporation formed by consolidation or otherwise under the laws of any State or States of the United States. Every such successor or purchasing corporation shall posses, and from time to time may exercise, each and every right and power hereunder of American Foreign Securities Company, in its name or otherwise.

SEC. 4. Any act or proceeding, by any provision of this indenture authorized or required to be done or performed by any board, committee, or officer of the company, shall and may be done and performed with like force and effect by the like board, committee, or officer of any corporation that at the time shall be such lawful sole successor or purchaser of the company.

SEC. 5. Except when otherwise indicated, the words "the trustee", or "said trustee" or any other equivalent term, as used in this indenture, shall be held and construed to mean the trustee or trustees for the time being, whether original or successor, and the words "trustee", "note", "noteholder", shall signify the plural as well as the singular number, the word "amount", where used in reference to the notes, shall signify principal amount, and the term "majority" shall signify majority in amount, whether or not so expressed.

The date, August 1, 1916, in this indenture first above written as the date hereof, is for the purpose of identification, this indenture being in fact executed and delivered on the date stated in the attestation clause hereof.

Bankers Trust Company, trustee, party hereto of the second part, hereby accepts the trusts in this indenture declared and provided, upon the terms and conditions hereof.

In witness whereof, American Foreign Securities Company, the party hereto of the first part, has caused this indenture to be signed by its president or one of its vice presidents, and its corporate seal to be hereunto affixed and attested by its secretary or assistant secretary, and the due execution of these presents to be proved, and Bankers Trust Company, the party hereto of the second part, has caused this indenture to be signed by one of its vice presidents and its corporate seal to be hereunto affixed and attested by its secretary or one of its assistant secretaries, and the due execution of these presents to be proved, all in duplicate. Executed and delivered the 31st day of July 1916.

[L. S.]

AMERICAN FOREIGN SECURITIES COMPANY,
By E. S. PEGRAM, *Vice President.*

Attest: W. GERARD VERMILYE, *Secretary.*

[L. S.]

BANKERS TRUST COMPANY,
By F. N. B. CLOSE, *Vice President.*

[L. S.]

U. S. internal-revenue stamps for $47,250 affixed and cancelled.

STATE OF NEW JERSEY,
County of Hudson, ss:

On the 31st day of July, in the year one thousand nine hundred and sixteen, before me personally came Edward S. Pegram, to me known, who, being by me duly sworn, did depose and say that he resides in New York City; that he is a vice president of American Foreign Securities Company, the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to the said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation, and that he signed his name thereto by like order.

[SEAL]

CHARLES J. ROE,
Master in Chancery, of New Jersey.

STATE OF NEW YORK,
County of New York, ss:

On the 31st day of July, in the year one thousand nine hundred and sixteen, before me personally came F. N. B. Close, to me known, who, being by me duly sworn, did depose and say that he resides in Cranford, N. J.; that he is a vice president of Bankers Trust Company, the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation; and that he signed his name thereto by like order.

[SEAL]

ARTHUR E. MCCABE,
Notary Public No. 2, Bronx County.

Certificate filed in New York County No. 11; commission expires March 30, 1917.

EXHIBIT A.—*United States corporations*

STOCKS

Shares	Name of company	Par value	Value in dollars
4,002	Atchison, Topeka & Santa Fe Railway Company common	$400,200	$416,208
4,759	General Electric Company	475,900	797,132
1,083	Northern Pacific Railway Company	108,300	119,671
740	Southern Pacific Company	74,000	71,965
601	Canadian Pacific Railway Company	60,100	106,076
439	Great Northern Railway Company preferred	43,900	51,363
3,129	Union Pacific Railroad Company common	312,900	427,108
417	Union Pacific Railroad Company preferred	41,700	34,298
1,002	American Telephone and Telegraph Company	100,200	129,258
285	Utah Copper Company	2,850	21,517
2,429	United States Steel Corporation preferred	242,900	286,622

BONDS

Name of company	Principal sum	Value in dollars
Interborough Rapid Transit Company, first and refunding mortgage gold 5% bonds due 1966	$163,000	$159,740
J. I. Case Threshing Machine Company, first mortgage 6% serial gold bonds	91,000	91,000
Southern Railway Company, development and general mortgage 50-year gold 4% bonds due 1956	184,000	128,800
United States Steel Corporation, 10-60 year sinking fund 5% bonds due 1963	151,000	158,550
New York Central & Hudson River Railroad Company, first mortgage 3½% gold bonds due 1997	11,000	9,020
Aggregate value		3,008,328

EXHIBIT No. 2703

[File copy]

GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND TWO-YEAR 5% SECURED LOAN GOLD NOTES—SYNDICATE AGREEMENT, AUGUST 18, 1916—J. P. MORGAN & CO., SYNDICATE MANAGERS

An agreement, made the 18th day August, 1916, by and between

J. P. Morgan & Co., (hereinafter called the "Syndicate Managers"), a copartnership, parties of the first part, and the subscribers hereto (hereinafter called, severally, the "Subscribers," and, collectively, the "Syndicate"), severally, parties of the second part:

Whereas, The United Kingdom of Great Britain and Ireland (hereinafter referred to as the "Government") purposes to issue $250,000,000 principal amount of two-year 5% secured loan gold notes of the Government, such notes to be substantially in the form marked exhibit A hereto annexed, and the pledge agreement referred to in said Exhibit A to be in form approved by the syndicate managers; and

Whereas, upon the terms of this agreement, the parties hereto desire to form a syndicate to underwrite the sale of the notes at 99% with any accrued interest upon the public offering presently to be made, and to pay to the Government 98% of the principal amount of the notes with any accrued interest; and

Whereas, the syndicate managers are to make no charge hereunder to the syndicate, but are to receive, without accountability therefor to the syndicate or any of the subscribers, a commission to be paid to them by the Government for their services in connection with the loan:

Now therefore, in consideration of the premises, and of the mutual promises herein contained, the parties hereto mutually have agreed and hereby do agree as follows:

FIRST: On subscribing this agreement each subscriber shall indicate opposite his name the principal amount of the notes for and on account of which such subscriber is or shall be bound, and for and on account of such amount of notes so indicated in his several subscriptions, each subscriber agrees to make payment to the syndicate managers, as hereinafter mentioned, at the rate of 99% and any accrued interest. Each subscriber agrees that from time to time and at any time on or after this date, he will make payment to the syndicate managers at the said rate for and on account of such amount of notes so indicated in his subscription, when and as called for by the syndicate managers, and without reference to the receipt or the possession by the syndicate managers or by the subscribers of any of the said notes. The term "notes," whenever used herein, shall be deemed to include receipts and certificates issued for payments on account of the purchase price of such notes.

SECOND. The several subscribers shall be called upon to make such payments of cash, in respect of their several subscriptions, only ratably according to the several amounts thereof; but to the full extent of his several undertakings, each subscriber shall be so responsible, regardless of performance or nonperformance by any other subscriber.

In the same proportion, except as otherwise herein provided, each subscriber shall be entitled to share in the benefits, and shall bear any loss, resulting to the syndicate under this agreement.

Nothing herein contained shall constitute the parties hereto partners, or shall render any one of the subscribers liable to contribute more than the amount of his several subscriptions.

THIRD. The syndicate managers may issue to the several subscribers suitable receipts in respect of moneys paid or advanced hereunder, or certificates of interest of such tenor and form as they may deem suitable. Such certificates of interest and all rights and obligations hereunder of the respective subscribers may be made transferable in such manner and on such terms and conditions as the syndicate managers may prescribe; but no transfer hereunder shall be valid unless assented to in writing by the syndicate managers; and, unless otherwise expressly provided in such assent, the transferrer shall continue to be liable for the payment of the unpaid part of the transferred subscription until the same shall be fully paid.

FOURTH. In case of the failure of any subscriber or of his transferee to perform any of his undertakings hereunder as and when called upon by them, the syndicate managers, in behalf of themselves and the syndicate, shall have. and at their sole and exclusive option they may exercise, the right to exclude such subscriber or his transferee from all interest in or under the syndicate; and in their discretion, without any proceedings either at law or in equity, in such manner and on such terms as they shall deem expedient, and without demand or notice, they may, at public or private sale, dispose of any interest or right of such subscriber or of his transferee hereunder, and thereupon all interest and right of such defaulting subscriber or his transferee hereunder shall cease and determine. At any public sale under this article of any interest or right of any subscriber or his transferee, the syndicate managers, or any party hereto, may become purchaser for their or for his own benefit, without accountability except for the purchase price. Notwithstanding any sale, whether public or private, the defaulting subscriber shall be responsible to the syndicate managers for the benefit of the syndicate for all damages resulting from any such failure on his part, not exceeding the amount unpaid on his subscription hereto with lawful interest.

FIFTH. The syndicate managers shall be the managers of the syndicate, and in behalf of the syndicate they may make any and all arrangements, and may perform any and all acts, even though not herein provided for, that in the exercise of their unrestricted discretion they shall deem to be expedient in order to consummate the purposes of this agreement, or to promote or to protect the interests of the syndicate.

The enumeration of specific powers in any article of this agreement shall not be construed as in any way abridging the general powers by this article intended to be conferred upon or reserved to the syndicate managers.

SIXTH. The syndicate managers shall have authority from time to time and at any time to incur such expenses as they may deem proper in carrying out, or in endeavoring to carry out, this agreement or in doing any act or thing which they may deem to be in the interest of the syndicate, or necessary or proper in discharge of any of its obligations. It is understood that, in addition to other expenses, the syndicate shall bear the cost of preparing, printing, and engraving the notes, the compensation of The Farmers Loan and Trust Company for services as trustee under the pledge agreement, and the expenses of legal counsel in connection with the preparation of the notes, the pledge agreement and other transactions in connection with the loan and the syndicate. All such expenses shall constitute and shall be a prior charge in their favor upon any and all moneys, notes, and property by them received and then held hereunder. Any and all moneys by them received hereunder for account of the syndicate shall be held by them or either of them as syndicate managers in general account. They also shall have power and authority finally to fix and to pay all compensations of depositaries, brokers, agents, and counsel, or others, and in the expense account may be included such commissions to brokers and others (whether or not parties to this agreement), as compensation for services rendered, as the syndicate managers from time to time may have determined and have paid or have become obligated to pay.

SEVENTH. The syndicate managers shall have full power as in the exercise of their unrestricted discretion they shall deem to be for the interest of the syndicate, from time to time, in such manner, upon such terms and for such prices as they shall deem expedient, to make sales of the notes upon the public offering or otherwise in such amounts as they may deem expedient.

In case of any such sale or acquisition, the proceeds thereof shall become and shall be subject to this agreement; and as administered, used, and finally distributed by the syndicate managers under the provisions of this agreement, the same shall be accepted by the syndicate in full and final discharge of any and all obliigation and liability of the syndicate managers hereunder.

Until the termination of the syndicate, the syndicate managers, in such manner, at such prices, on such terms, and in such amounts as they may deem expedient, shall have power, for account of the syndicate, to make purchases of any notes of the issue for delivery by them under sales theretofore or thereafter made, and they may resell any such notes which they may have purchased; and, in their discretion, they may make any further undertakings of any kind with any persons concerning any such notes. They may apply toward any such purchases any sums realized from any sales of notes under any provision of this agreement; and they may make advances, or may procure loans, and may secure the same to such amounts and in such manner as from time to time they may deem expedient for any of the purposes of this agreement.

EIGHTH. The rights and the powers of the syndicate managers and the interests of the subscribers hereunder severally and respectively shall continue until the final distribution hereunder. Prior to the date of such final distribution, no death of any person or subscriber or of any member of any partnership subscriber, nor any dissolution or termination of any corporate subscriber, shall dissolve the syndicate or shall terminate the rights of the powers of the syndicate managers in respect of any interest of any subscriber then living or dead or ceasing to exist, or shall entitle any subscriber then surviving or the representatives of any subscriber then deceased or ceasing to exist, to demand any dissolution, distribution or accounting, or to withdraw any interest hereunder; this stipulation constituting an essential part of the consideration for this agreement.

No subscriber shall be entitled before the termination of the syndicate to receive any of the said notes or the proceeds thereof, subject to this agreement. In the meantime, in their discretion, the syndicate managers either themselves may retain all or any of such notes, or they may deliver to any subscriber his proportionate part thereof, upon his agreement to hold the same subject to sale by the syndicate managers, and to return the same upon the call of the syndicate managers at any time before the termination of the syndicate.

NINTH. The syndicate managers shall be the sole and final judges as to whether at any time it is to the interest of the syndicate to proceed further under this agreement, and whenever they may deem expedient, they may abandon the objects contemplated by this agreement and all further proceedings thereunder. In such event, any and all notes and any and all proceeds of the notes, by them received and then held for account of the syndicate, shall remain charged with the payment of all expenses and liabilities by the syndicate managers incurred for the purposes herein indicated, and after paying to the Government the amount payable to it on the notes as hereinabove recited, shall be applied:

First, to the payment and discharge of any and all expenses and all liabilities incurred by the syndicate managers for any purpose indicated in this agreement;

Secondly, to the payment to the subscribers of all amounts of such securities or of cash held by the syndicate managers subject to this agreement, such payment to be made to the subscribers ratably.

TENTH. After the complete performance of the entire obligation of the syndicate hereunder, and payment of the amount payable to the Government on the notes as hereinabove recited but not before the 1st day of October 1916, unless otherwise determined by the syndicate managers in the exercise of their unrestricted discretion, the syndicate shall be entitled to receive the notes, or proceeds thereof, then held by the syndicate managers under this agreement, and including the net profits of the purchase, use, sale, and disposition of the notes that shall be or become the subject of this agreement.

The syndicate managers will make no charge to the syndicate for their services in forming and in managing the syndicate hereunder; but they shall be entitled to retain without accountability to the syndicate or to any of the subscribers, the aforesaid commission to be received by them from the Government, and also any compensation, profits, or benefits which have accrued or may accrue to them under any contract or arrangement with the Government connected with the loan or otherwise.

ELEVENTH. The syndicate managers shall not be liable under any of the provisions of this agreement nor for any matter therewith connected, except for good faith in performing, or in refraining from performing or carrying out, the obligations by them herein expressly assumed; the implication of any obligations not herein expressly assumed by them being hereby expressly denied and waived. The syndicate managers shall be under no responsibility in respect of the form or validity of the said notes or of any receipts or certificates, nor for the delivery by the Government of definitive notes in exchange for temporary notes or any receipts or certificates which may be issued for payments on account of the notes, nor for the performance of any agreement contained in any such receipts or certificates.

It is understood that in the same manner as other subscribers, the syndicate managers may become subscribers hereto; that as such subscribers they shall be liable for all subscriptions by them made, respectively; and that in all respects they shall be entitled to the same rights and benefits as any other subscriber.

The syndicate managers and any subscriber hereto, without accountability to the syndicate or any other subscribers, may become and be interested in any other syndicate or association for the purchase or the sale of any securities covered by this agreement or for dealings therein.

TWELFTH. This agreement shall bind, and is for the benefit of, the parties hereto, and their successors, executors, and administrators, severally and respectively.

All rights and powers hereunder of J. P. Morgan & Co. shall vest in the copartnership or firm doing business under such name, and without further act or assignment shall pass to and vest in the successor of such firm as from time to time constituted, doing business as such successor.

THIRTEENTH. Nothing herein contained shall be construed as creating any trust or obligation whatsoever in favor of any person or corporation other than the syndicate managers and the subscribers, nor any obligation in favor of the subscribers, excepting only as herein expressly provided.

FOURTEENTH. Each subscriber shall set opposite his subscription hereunder an address, to which notices, calls, or other communications may be sent, and any notice, call, or other communication addressed to any subscriber at the address so given, and either left at such address or mailed thereto, shall be deemed actually given to such subscriber, and shall be sufficient for all the purposes hereof. If any subscriber shall fail so to furnish his address to the syndicate managers, he shall not be entitled to any notice of calls, or offers, or any other notice hereunder, except upon request at the office of the syndicate managers, and he shall be deemed to assent to any action of the syndicate managers.

FIFTEENTH. In consideration of the irrevocable rights in them vested hereunder, and the promises of the several subscribers, the syndicate managers have become parties to, and in good faith will endeavor to consummate the purposes of, this agreement.

In witness whereof the parties of the first part have hereunto affixed their signatures, and the parties of the second part at various dates have affixed their subscriptions hereto, it being understood that for convenience this agreement may be subscribed in several parts and copies with like force and effect as though all the subscriptions were upon one part or copy thereof.

Name	Address	Subscription in notes (principal amount)
		$

EXHIBIT A

[Form of note]

No.________________ $________________

THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND
$250,000,000 TWO-YEAR 5% SECURED LOAN

GOLD NOTE

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed "obligor"), for value received, promises to pay to bearer the sum of dollars on the first day of September 1918 and to pay interest on such principal sum at the rate of five per centum (5%) per annum, semiannually, on the first day of March and the first day of September in each year, until such principal sum shall be paid, but only upon presentation and surrender of the coupons for such interest, hereto attached, as severally they mature. Such principal sum and the interest thereon will be paid at the office of J. P. Morgan & Co. in the city of New York, State of New York, United States of America, in gold coin of the United States of America, of the standard of weight and fineness existing September 1, 1916, without deduction for any British taxes, present or future.

The notes of the loan, for the aggregate principal sum of $250,000,000, are equally and ratably secured by the pledge with the Farmers Loan and Trust Company, a corporation of the State of New York, of certain bonds, stocks, and other securities pursuant to and upon the terms of an instrument in writing (hereinafter termed "pledge agreement") duly executed and delivered by the obligor to the said Trust Company, to which pledge agreement, held by said Trust Company, reference hereby is made.

This note is subject to redemption at the office of said Trust Company, at the option of the obligor, on any day until and including August 31, 1917, at 101% of the principal sum, or on any day thereafter until and including August 31, 1918, at 100½% of the principal sum, accrued interest to the date of such redemption being also payable. Notice of intention to redeem will be given by advertisement thereof in two newspapers published in said city of New York, once in each week for five successive weeks, the first publication to be not less than thirty days prior to the date fixed for such redemption. After the date of redemption specified in said notice, provided payment be made of the amount payable on this note when presented pursuant to such notice, no interest will accrue hereon and any coupons for interest maturing after such date will be null and void.

In case of the sale of any of the pledged securities in enforcement of said pledge agreement upon a default as specified therein, then and in such case the principal sum of this note and of all other notes of the loan, if not previously due, will become forthwith due and payable.

The notes of the loan are issuable in denominations of $1,000, $5,000, and $10,000. Unless previously called for redemption, any note of a denomination higher than $1,000, with all unmatured coupons thereto attached, when surrendered for that purpose at the office of the said Trust Company, may be exchanged for notes (bearing all unmatured coupons) of equal aggregate principal amount of lower denomination or denominations. For any such exchange, the obligor may prescribe reasonable rules and regulations, and may require payment of a reasonable charge.

This note shall not be entitled to the benefit of the said pledge agreement, nor be valid for any purpose, until authenticated by the certificate hereon duly executed by the said Trust Company or its successor in the trust under said pledge agreement.

Dated September 1, 1916.

[Form of coupon]

No---------------- $---------------

On the first day of , 191 , (unless the note below mentioned shall have been called for previous redemption) the Government of promises to pay to bearer at the office of J. P. Morgan & Co., in the city of New York, State of New York, United States of America, dollars gold coin of the United States of America, without deduction for British taxes, present or future, being six (6) months' interest on gold note no.------------ of the two-year 5% secured loan of the said Government.

[Form of certificate of Trust Company]

This note is one of the notes of the loan within mentioned.

THE FARMERS LOAN AND TRUST COMPANY,
By ——— ———, *Vice-President.*

EXHIBIT NO. 2704

THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND TO THE FARMERS' LOAN AND TRUST COMPANY—PLEDGE DATED SEPTEMBER 1, 1916, SECURING $250,000,000 TWO-YEAR 5% SECURED LOAN GOLD NOTES, INTEREST PAYABLE MARCH 1 AND SEPTEMBER 1

NEW YORK CITY, *September 1, 1916.*

To the FARMERS' LOAN AND TRUST COMPANY,
New York City.

DEAR SIRS: The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the obligor) is about to issue and to sell its two-year 5% secured loan gold notes for the aggregate principal amount of $250,-

000,000, dated September 1, 1916; such notes (hereinafter referred to as the notes) to be substantially in the form marked schedule A hereto annexed, and to be authenticated by the certificate thereon executed by your company. Pending the preparation of the definitive notes, temporary notes without coupons, substantially in said form, may be issued in any denomination and similarly authenticated.

I. In order to secure the payment, principal, and interest of all of the notes of said issue at any time outstanding according to their tenor, and in consideration of the purchase and acceptance of such notes by the original and subsequent takers and holders thereof, the obligor hereby pledges with your company certain bonds, stocks, and other securities (hereinafter termed, collectively, "pledged securities") of the aggregate value of not less than $300,000,000, as follows—the several issues of such securities, and the unit values at which such securities severally and respectively are pledged hereunder, being set forth in schedule B hereto annexed, viz:

> *Group 1.*—Stocks, bonds, and other securities of corporations organized in the United States, of the aggregate value of not less than $100,000,000.
>
> *Group 2.*—Bonds and other obligations of the Government of the Dominion of Canada, either as maker or guarantor, and stocks, bonds, and other securities of the Canadian Pacific Railway Company, all of the aggregate value of not less than $100,000,000.
>
> *Group 3.*—Bonds and other obligations of the several following Governments, either as maker or guarantor, viz., of Argentina, Chile, Norway, Sweden, Denmark, Switzerland, and/or Holland, all of the aggregate value of not less than $100,000,000.

Such pledge to your company is in trust for the benefit of all present and future holders of the notes, so that subject to the terms hereof the principal and interest of the notes shall be secured ratably by such pledge.

Coupons or warrants for interest or dividends maturing or payable on or prior to September 1, 1918, on any securities held by your company under this writing, may be lodged at the office of your company in London, England, or at such other agencies in London as your company may elect.

II. In case at the time of the authentication by your company of the notes, the obligor shall not have delivered to you all of the securities deliverable under clause I hereof, the obligor will deposit temporarily with you, as part of the security hereunder, (1) corporate stocks, bonds, or other securities that are listed upon the New York Stock Exchange and are approved by J. P. Morgan & Co. as acceptable for the purpose, of a value equal to the difference between $300,000,000 and the aggregate value of the securities that shall have been delivered under clause I; and (2) a sum in cash equal to five-sixths of the difference, if any, between $300,000,000 and the aggregate value of the securities delivered under clause I and the securities delivered under this clase II.

Thereafter from time to time, upon delivery to your company of any securities deliverable under clause I and not theretofore delivered, your company either (*a*) will redeliver such temporarily deposited securities of an amount in value equal to the amount in value of the securities so delivered under clause I, or (*b*) will repay such temporarily deposited cash of an amount equal to five-sixths of the value of the securities so delivered under clause I.

III. From time to time, upon the written request of the obligor and the written approval of J. P. Morgan & Co., your company shall release any of the pledged securities, provided that contemporaneously there be substituted for the securities of each group so released other securities of the same group of equal aggregate value.

IV. If at any time the pledged securities shall have depreciated in aggregate value either because of change in market price or in the rate of exchange, so that such aggregate value shall become less than 120% of the principal amount of the notes at the time outstanding, the obligor from time to time will deliver to your company, as part of the trust estate, additional securities of one or more of the groups sufficient to bring the value of all of the securities pledged to a sum exceeding by not less than twenty percent (20%) the principal amount of the notes at the time outstanding, so that at all times such twenty percent (20%) excess value shall be maintained; provided, however, that if at the time of such depreciation the trustee shall hold, as part of the security under this writing, any cash deposited in lieu of securities, then and in such case the obligor shall not be required to pledge additional securities hereunder unless at the time the aggregate value of the pledged securities held by the trustee shall have become less than 120% of the difference between the aggregate principal amount of the outstanding notes and the amount of such cash, nor to pledge any additional securities except to an amount sufficient to increase the value of the pledged securities to the amount of 120% of said difference in amount.

V. For all purposes of clause I of this writing, the value of the pledged securities is to be computed upon the basis of the unit values respectively set forth in schedule B.

For the purposes of clause II of this writing, (1) the value of the securities therein referred to as deliverable under clause I is to be computed upon the basis of the unit values thereof respectively set forth in schedule B, and (2) the value of the securities temporarily deposited shall be deemed to be such as J. P. Morgan & Co. shall certify to your company in writing to be, in their opinion, the values respectively of such temporarily deposited securities at the time of the deposit thereof when computed upon the basis of the market value on the New York Stock Exchange, if quoted thereon; and, if not quoted thereon, the market value in the general securities market in New York.

For all purposes of clause III and clause IV of this writing, the value at any time of pledged securities released and of securities substituted therefor and of additional securities pledged, respectively, shall be deemed to be such as J. P. Morgan & Co. shall certify to your company in writing to be, in their opinion, the values of such substituted or released or additional securities, as the case may be, at the time of such substitution or release or pledge, as determined upon the following basis, viz.: (*a*) The value of such securities payable in currency of the United States shall be the market value of the securities on the New York Stock Exchange, if quoted thereon, and, if not quoted thereon, the market value in the general securities market in New York; (*b*) the value of such securities not payable in United States currency shall be the market value in London of the securities in pounds sterling, converted into dollars in the city of New York at the then exchange value of pounds in the New York market; and (*c*) if any of the securities, in the judgment of J. P. Morgan & Co., have no quoted market prices, the market value of such securities shall be taken to be such as J. P. Morgan & Co. shall fix for the purpose.

All determinations of value have been made and shall be made without including any amount for accrued interest on any of the securities valued.

VI. The security hereby constituted shall become enforcible in each and every of the following events of default by the obligor (hereinafter termed "events of default"), viz:

(*a*) Default in the payment of the principal of any of the notes.

(*b*) Default in the payment of any instalment of interest on any of the notes, which default shall have continued for the period of thirty (30) days.

(*c*) Default in pledging hereunder additional securities to maintain the margin as provided in clause IV of this writing, which default shall have continued for the period of thirty (30) days after notice to the obligor from your company.

VII. Until the happening of an event of default, the obligor shall be entitled (1) to collect and to receive for its own account all interest, dividends, and other income of the pledged securities, and accordingly, at a reasonable time prior to the due date thereof, to have delivered by your company to the obligor, or upon its order, all coupons and warrants for such interest, dividends, and other income; and (2) to exercise any voting rights appertaining to any of the pledged securities.

VIII. Upon the happening of an event of default, your company in its discretion may, and upon the request of the holders of twenty-five percent (25%) of the principal amount of the notes at the time outstanding and upon being indemnified to its satisfaction your company shall, sell, collect, and convert into money the pledged securities or any part thereof, and all right of redemption thereof.

IX. At any sale, the pledged securities may be sold in one or more lots as in its discretion your company shall determine. Any such sale shall be made at public auction in the city of New York, or in the city of London, or in part in one and in part in the other of said cities. The notice of sale shall contain a brief general description of the pledged securities to be sold, a statement of the time or times of each such sale, and a specification of the terms of sale as determined by your company, and shall be sufficiently given if published once in each week for five successive calendar weeks prior to any such sale in two newspapers published in the Borough of Manhattan, city of New York, and in two newspapers published in the city of London.

From time to time, any such sale may be adjourned by your company by announcement at the time and place appointed for such sale, or any such adjourned sale; and without further notice or publication, such sale may be made at the time and place to which the same shall have been so adjourned.

No purchaser or anyone claiming under him shall be bound to see to the application of the purchase money or to inquire as to the authorization or regularity of any such sale.

X. In case of any sale of any of the pledged securities by your company under the power of sale above granted, the whole of the principal sums of the notes, if not previously due, shall at once become due and payable.

XI. The avails of any sale shall be applied as follows:

First, to the payment of the costs and expenses of such sale, and also a reasonable compensation to your company, its agents, attorneys, and counsel, and of all taxes, expenses, liabilities, and advances made or incurred by your company in the care, administration, or collection of any of the pledged securities.

Secondly, to the payment of the whole amount then owing and unpaid upon the notes for principal and interest, including interest at the rate of five percent per annum on principal after maturity and on overdue coupons; or in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon said notes, then to the payment of such principal and interest, ratably, without preference of principal over interest or of interest over principal.

Lastly, to the payment of the surplus, if any, to the obligor.

XII. At any such sale, any holder or holders of any of the notes (including your company) may become the purchaser or purchasers of the pledged securities, without accountability except for the purchase price, whether the sale be made under the power of sale herein contained or pursuant to judicial proceedings.

XIII. From time to time, acting by its agents authorized in writing (of which authorization a duplicate shall be filed with your company), the obligor may sell any of the pledged securities, provided that the obligor shall not be in default in the payment of the principal or interest of any of the notes, and provided, further, that any default existing prior to such sale in the agreements of the obligor contained in clause IV hereof, may and shall be remedied by the application of the proceeds of sale to the redemption of notes as hereinafter provided. Such sales may be made in such manner and at such place, and whether publicly or privately, as the obligor or its agents authorized as aforesaid may deem advisable. In case of any such sale, your company shall release the securities so sold, upon receipt by your company of the net proceeds of the sale as certified in writing to your company by the obligor or by J. P. Morgan & Co., the date of such release and delivery of such securities to be the date specified in said writing.

XIV. Any and all proceeds of any sale pursuant to the provisions of clause XIII hereof, shall be applied to the purchase or redemption of notes as follows:

Until the delivery to your company by the obligor of a request to redeem notes by call as hereinafter provided, such moneys shall be applied by your company to the payment of the purchase price of notes secured hereby which shall be delivered to you by J. P. Morgan & Co. for cancellation. A writing signed by J. P. Morgan & Co. stating the amount of notes, and the purchase price or prices thereof (which in no case shall exceed the then redemption price), shall be warrant to your company for paying to J. P. Morgan & Co., or upon their order, such purchase price or prices and for any other action taken by your company on the faith of such writing.

If the obligor shall deliver to your company a written request to redeem notes by call, specifying therein the date for such redemption which shall be not less than forty (40) days subsequent to the delivery of such request, your company at the expense of the obligor shall publish once in each week for five successive calendar weeks, in two newspapers published in the Borough of Manhattan, city of New York, a notice calling for the presentation and surrender at the office of your company, on the date so specified (which date shall be not sooner than 30 days after the first publication) of the notes to be redeemed bearing all unpaid coupons. In case less than all the outstanding notes are so to be redeemed, the notice shall specify, by reference to the serial numbers thereof, the notes called for redemption as determined by lot according to any method deemed proper by your company and approved by J. P. Morgan & Co.

To the extent of any moneys applicable to the purpose at any time thereafter held by your company, upon surrender of any such designated note, bearing coupons as aforesaid, your company shall receive the same and shall pay therefor the principal amount, the premium payable on the designated redemption date, and the accrued interest thereon up to such redemption date.

To avoid partial redemption of any note of a denomination greater than $1,000, your company in any drawing for redemption may apportion, as nearly as practicable, to the aggregate amount of notes of each denomination, such part of the funds available for redemption as shall bear to the entire amount of such funds the same proportion that the aggregate amount of notes of each denomination shall bear to the aggregate amount of all the notes then outstanding, and a separate drawing of the notes of each denomination shall be made for such amounts as the moneys apportioned to such denomination shall suffice to pay at the redemption rates above specified.

All notes so redeemed or purchased forthwith shall be cancelled by your company and be delivered to the obligor.

XV. The right to enforce the security given by these presents for the benefit of the notes, shall vest exclusively in your company and its successors in the trust, and all action by your company in such enforcement shall be for the ratable benefit of all of the notes at the time outstanding. No holder of any note or coupon shall bring any suit, action or other proceedings for the enforcement of such security.

XVI. When all of the notes, principal and interest, shall have been paid, or when provision for such payment shall have been made by the obligor by depositing with your company the amount payable to noteholders, your company, at the cost and expense of the obligor, shall re-deliver to the obligor the pledged securities, together with proper instruments of assignment and transfer.

XVII. Any request or other instrument purporting to be signed in behalf of the obligor for any of the purposes of this writing, including the authentication and delivery of the notes, if verified by the countersignature of J. P. Morgan & Co., shall be authority to the trustee for taking action pursuant to such request or other instrument.

All rights and powers of J. P Morgan & Co. shall vest in the copartnership or firm doing business under such name, and shall pass to and shall vest in the successor of such firm as from time to time constituted, doing business as such successor.

Any notice to the obligor required to be given under this writing or by law, shall be sufficiently given if addressed "To the Secretary of the British Treasury, care of J. P. Morgan & Co.," and delivered by hand to any member of the the firm of J. P. Morgan & Co. at their office in the city of New York.

XVIII. Your company shall be under no duty to take notice of any default on the part of the obligor in any of its agreements contained in the notes or in this writing, or otherwise, unless it shall receive notice thereof and request to take action thereupon by a writing signed by persons shown to your company's satisfaction to be the holders of ten percent of the principal amount of the notes then outstanding; but nothing herein contained shall be deemed to limit or affect the right of your company without notice or request from noteholders to take action upon any default.

Any securities delivered hereunder may be retained by your company in the form in which deposited until a default hereunder or until requested by the obligor to have the same transferred.

XIX. In case your company shall be in doubt in any instance as to the meaning of this instrument or its powers or duties thereunder, your company may advise with legal counsel selected by it and shall be protected in anything done or suffered by it in good faith in pursuance of the opinion of such counsel.

CECIL SPRING-RICE, *H. B. M. Ambassador*
(For the Government of the United Kingdom
of Great Britain and Ireland).

SCHEDULE A

[Form of note]

No. -- $------

THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND $250,000,000 TWO-YEAR 5% SECURED LOAN

GOLD NOTE

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed "Obligor"), for value received, promises to pay to bearer the sum of dollars on the first day of September 1918, and to pay interest on such principal sum at the rate of five per centum (5%) per annum, semiannually, on the first day of March and the first day of September in each year, until such principal sum shall be paid, but only upon presentation and surrender of the coupons for such interest, hereto attached, as severally they mature. Such principal sum and the interest thereon will be paid at the office of J. P. Morgan & Co., in the city of New York, State of New York, United States of America, in gold coin of the United States of America of the standard of weight and fineness existing September 1, 1916, without deduction for any British taxes, present or future.

The notes of the loan, for the aggregate principal sum of $250,000,000, are equally and ratably secured by the pledge with The Farmers' Loan and Trust Company, a corporation of the State of New York, of certain bonds, stocks, and other securities pursuant to and upon the terms of an instrument in writing (hereinafter termed "pledge agreement") duly executed and delivered by the obligor to the said trust company, to which pledge agreement, held by said trust company, reference hereby is made.

This note is subject to redemption at the office of said trust company, at the option of the obligor, on any day until and including August 31, 1917, at 101% of the principal sum, or on any day thereafter until and including August 31, 1918, at 100½% of the principal sum, accrued interest to the date of any such redemption being also payable. Notice of intention to redeem will be given by advertisement thereof in two newspapers published in said city of New York, once in each week for five successive weeks, the first publication to be not less than thirty days prior to the date fixed for such redemption. After the date of redemption specified in said notice, provided payment be made of the amount payable on this note when presented pursuant to such notice, no interest will accrue hereon and any coupons for interest maturing after such date will be null and void.

In case of the sale of any of the pledged securities in enforcement of said pledge agreement upon a default as specified therein, then and in such case the principal sum of this note and of all other notes of the loan, if not previously due, will become forthwith due and payable.

The notes of the loan are issuable in denominations of $1,000, $5,000, and $10,000. Unless previously called for redemption, any note of a denomination higher than $1,000, with all unmatured coupons thereto attached, when surrendered for that purpose at the office of the said trust company, may be exchanged for notes (bearing all unmatured coupons) of equal aggregate principal amount of lower denomination or denominations. For any such exchange, the obligor may prescribe reasonable rules and regulations, and may require payment of a reasonable charge.

This note shall not be entitled to the benefit of the said pledge agreement, nor be valid for any purpose, until authenticated by the certificate hereon duly executed by the said trust company or its successor in the trust under said pledge agreement.

Dated, September 1, 1916.

[Form of coupon]

No. -- $------

On the first day of , 191 (unless the note below mentioned shall have been called for previous redemption) the Government of promises to pay to bearer at the office of J. P. Morgan & Co. in the city of New York, State of New York, United States of America, dollars gold coin of the United States of America, without deduction for British taxes, present or future, being six (6) months' interest on gold note no. ---- of the two-year 5% secured loan of the said Government.

[Form of certificate of trust company]

This note is one of the notes of the loan within mentioned.

THE FARMERS' LOAN AND TRUST COMPANY,
By *Vice President.*

SCHEDULE B

GROUP 1

	Unit value
Railroad shares:	
Atchison, Topeka & Santa Fe Railway Co. preferred	$98
Atlantic Coast Line Railroad Co. common	113
Baltimore & Ohio Railroad Co. preferred	73
Chicago & Northwestern Railway Co. common	126
Chicago & Northwestern Railway Co. preferred	170
Chicago, Milwaukee & St. Paul Railway Co. common	94
Chicago, Milwaukee & St. Paul Railway Co. preferred	125
Cleveland & Pittsburgh Railroad Co. guaranteed stock	79
Detroit, Hillsdale & Southwestern Railway Co. stock	88
Erie & Pittsburgh Railroad Co. stock	62
Erie Railroad Co. first preferred	53
Great Northern Railway Co. preferred	117
Illinois Central Railroad Co. stock	100
Illinois Central Railroad Co. leased lines stock	75
Lehigh Valley Railroad Co. stock	78
Louisville & Nashville Railroad Co. stock	129
Manhattan Railway Co. stock	127
Minneapolis, St. Paul & S. S. M. Railway Co. common	122
Minneapolis, St. Paul & S. S. M. Railway Co. preferred	131
Minneapolis, St. Paul & S. S. M. Railway Co. leased lines stock	72
Morris & Essex Railroad Co. common	80
New York Central Railroad Co. stock	103
Norfolk & Western Railway Co. common	128
Norfolk & Western Railway Co. preferred	85
Northern Pacific Railway Co. stock	110
Pennsylvania Railroad Co. stock	55
Pittsburgh, Fort Wayne & Chicago Railway Co. original guaranteed stock	155
Pittsburgh, Fort Wayne & Chicago Railway Co. special guaranteed stock	145
Reading Company first preferred	43
Reading Company second preferred	45
St. Louis Bridge Co. first preferred	103
Southern Pacific Company stock	97
Tunnel Railroad of St. Louis stock	104
Union Pacific Railroad Co. common	140
Union Pacific Railroad Co. preferred	82
Railroad bonds:	%
Alabama & Vicksburgh Railway Co. consolidated first mortgage sinking fund gold 5's, 1921	98
Alabama Central Railroad Co. first 6's, 1918	102
Alabama Great Southern Railroad Co. first mortgage extension gold 5's, 1927	103
Alabama Great Southern Railroad Co. general mortgage sterling 5's, 1927	$460 per £100
Alabama Midland Railway Co. first mortgage gold 5's, 1928	106
Allegheny Valley Railway Co. general mortgage gold 4's, 1942	96
American Dock & Improvement Co. first 5's, 1921	103
Ann Arbor Railroad Co. first 4's, 1995	64
Atchison, Topeka & Santa Fe Railway Co. convertible gold 5's, 1917	100
Atchison, Topeka & Santa Fe Railway Co. convertible gold 4's, 1955	103

Railroad bonds—Continued	%
Atchison, Topeka & Santa Fe Railway Co. convertible gold 4's, 1960	103
Atchison, Topeka & Santa Fe Railway Co. California-Arizona lines first & refunding mortgage 4½'s, 1962	96
Atchison, Topeka & Santa Fe Railway Co. California-Arizona lines first & refunding mortgage 4½'s, 1962, sterling	$465 per £100
Atchison, Topeka & Santa Fe Railway Co. adjustment mortgage gold 4's, 1995, stamped	82
Atchison, Topeka & Santa Fe Railway Co. adjustment mortgage gold 4's, 1995, unstamped	82
Atchison, Topeka & Santa Fe Railway Co. general mortgage gold 4's, 1995	92
Atchison, Topeka & Santa Fe Railway Co. Eastern Oklahoma division mortgage gold 4's, 1928	95
Atchison, Topeka & Santa Fe Railway Co. Transcontinental Short Line 4's, 1958	89
Atlantic & Danville Railway Co. first mortage 4's, 1948	80
Atlantic Coast Line Railroad Co. first consolidated mortgage gold 4's, 1952	91
Atlantic Coast Line Railroad Co. first consolidated gold 4's, 1952, registered	90
Atlantic Coast Line Railroad Co. Louisville & Nashville collateral trust gold 4's, 1952	83
Atlantic Coast Line Railroad Co. of South Carolina general first 4's, 1958	92
Atlanta & Charlotte Air Line Railway Co. first mortgage 4½'s, 1944, "A"	93
Baltimore & Ohio Railroad Co. prior lien gold 3½'s, 1925	92
Baltimore & Ohio Railroad Co. convertible 4½'s, 1933	94
Baltimore & Ohio Railroad Co. first-mortgage 50-year gold 4's, 1948	90
Baltimore & Ohio Railroad Co. southwestern division first-mortgage gold 3½'s, 1925	90
Baltimore & Ohio Railroad Co. Pittsburgh, Lake Erie & West Virginia System refunding gold 4's, 1941	85
Baltimore & Ohio Railroad Co. Pittsburgh Junction & Midland division first-mortgage gold 3½'s, 1925	90
Bangor & Aroostook Railroad Co. first 5's, 1943	100
Beech Creek Railroad Co. first mortgage gold 4's, 1936	94
Beech Creek Railroad Co. first mortgage gold 4's, 1936, registered	92
Beech Creek Railroad Co. second mortgage gold 5's, 1936	102
Birmingham Terminal Co. first mortgage gold 4's, 1957	83
Buffalo, Rochester & Pittsburgh Railway Co. general mortgage gold 5's, 1937	108
Buffalo, Rochester & Pittsburgh Railway Co. consolidated 4½s, 1957, registered	100
Buffalo, Rochester & Pittsburgh Railway Co. equipment 4½'s, 1919	100
Buffalo, Rochester & Pittsburgh Railway Co. equipment 4½'s, 1920	100
Burlington, Cedar Rapids & Northern Railway Co. consolidated first mortgage gold 5's, 1934	99
Carolina, Clinchfield & Ohio Railway Co. first mortgage gold 5's, 1938	92
Carolina, Clinchfield & Ohio Railway Co. Elkhorn extension first mortgage 5% gold notes, May 1, 1917	97
Carolina, Clinchfield & Ohio Railway Co. 5's, 10-year gold notes, July 1, 1919	92
Carthage & Adirondack Railway Co. first mortgage gold 4's, 1981	88
Central New England Railway Co. first mortgage gold 4's, 1961	81

Railroad bonds—Continued	%
Central of Georgia Railway Co. consolidated mortgage gold 5's, 1945	100
Central of Georgia Railway Co. first mortgage gold 5's, 1945	107
Central Pacific Railway Co. 30-year sinking fund 3½'s 1929	88
Central Pacific Railway Co. first refunding mortgage gold 4's, 1949	87
Central Pacific Railway Co. through short line first mortgage gold 4's, 1954	84
Central Railroad & Banking Co. of Georgia 50-year collateral trust 5's, 1937	94
Central Railroad of New Jersey general mortgage gold 5's, 1987	115
Central Railroad of New Jersey general mortgage 5's, 1987, registered	114
Chesapeake & Ohio Railway Co. first consolidated mortgage gold 5's, 1939	106
Chesapeake & Ohio Railway Co. first consolidated mortgage gold 5's, 1939, registered	104
Chesapeake & Ohio Railway Co. general mortgage gold 4½'s, 1992	89
Chesapeake & Ohio Railway Co. convertible 20-year gold 4½'s, 1930	84
Chesapeake & Ohio Railway Co. general funding & improvement mortgage gold 5's, 1929	94
Chesapeake & Ohio Railway Co. Craig Valley branch first mortgage gold 5's, 1940	92
Chesapeake & Ohio Railway Co. Warm Springs branch first mortgage gold 5's, 1941	92
Chesapeake & Ohio Railway Co. Richmond & Allegheny division first consolidated 4's, 1989	86
Chicago & Alton Railroad Co. refunding mortgage 3's, 1949	59
Chicago & Erie Railroad Co. first mortgage gold 5's, 1982	105
Chicago & Erie Railroad Co. first mortgage gold 5's, 1982, registered	104
Chicago & Northwestern Railway Co. general mortgage gold 4's, 1987	93
Chicago & Northwestern Railway Co. general mortgage gold 3½'s, 1987	80
Chicago & Northwestern Railway Co. debenture 5's, 1921	102
Chicago & Northwestern Railway Co. debenture 5's, 1929	104
Chicago & Northwestern Railway Co. sinking fund debenture 5's, 1933	104
Chicago & Northwestern Railway Co. equipment trust 4½'s, 1917–1920	100
Chicago & Western Indiana Railroad Co. consolidated mortgage gold 4's, 1952	74
Chicago & Western Indiana Railroad Co. general mortgage 6's, 1932	105
Chicago, Burlington & Quincy Railroad Co. Illinois division 3½'s, 1949	84
Chicago, Burlington & Quincy Railroad Co. Illinois division 4's, 1949	94
Chicago, Burlington & Quincy Railroad Co. Nebraska extension mortgage sinking fund 4's, 1927	98
Chicago, Burlington & Quincy Railroad Co. Iowa division sinking fund 5's, 1919	102
Chicago, Burlington & Quincy Railroad Co. general mortgage 4's, 1958	93
Chicago, Burlington & Quincy Railroad Co. sinking fund 4's, 1921	98
Chicago, Great Western Railroad Co. first mortgage gold 4's, 1959	69
Chicago, Indiana & Southern Railroad Co. first mortgage 4's, 1956	87
Chicago, Indianapolis & Louisville Railway Co. refunding mortgage 6's, 1947	113

Railroad bonds—Continued	%
Chicago, Milwaukee & Puget Sound Railway Co. first mortgage gold 4's, 1949	91
Chicago, Milwaukee & Puget Sound Railway Co. first mortgage gold 4's, 1949, registered	90
Chicago, Milwaukee & St. Paul Railway Co. Chicago & Missouri River division first mortgage 5's, 1926	104
Chicago, Milwaukee & St. Paul Railway Co. Dubuque division first mortgage sinking fund 6's, 1920	106
Chicago, Milwaukee & St. Paul Railway Co. Wisconsin Valley division first mortgage sinking fund 6's, 1920	106
Chicago, Milwaukee & St. Paul Railway Co. Chicago & Lake Superior division first mortgage gold 5's, 1921	102
Chicago, Milwaukee & St. Paul Railway Co. Chicago & Pacific Western division first mortgage gold 5's, 1921	102
Chicago, Milwaukee & St. Paul Railway Co. LaCrosse & Davenport division first mortgage gold 5's, 1919	101
Chicago, Milwaukee & St. Paul Railway Co. Wisconsin & Minnesota division first mortgage gold 5's, 1921	102
Chicago, Milwaukee & St. Paul Railway Co. general mortgage gold 4's 1989, "A"	89
Chicago, Milwaukee & St. Paul Railway general mortgage gold 4's, 1989, "A", registered	88
Chicago, Milwaukee & St. Paul Railway Co. general mortgage gold 4½'s, 1989, "C"	100
Chicago, Milwaukee & St. Paul Railway Co. general mortgage gold 4½'s, 1989, "C", registered	98
Chicago, Milwaukee & St. Paul Railway Co. gold debenture 4's, 1934	90
Chicago, Milwaukee & St. Paul Railway Co. convertible gold 4½'s, 1932	100
Chicago, Rock Island & Pacific Railway Co. first mortgage 6's, 1917	101
Chicago, Rock Island & Pacific Railway Co. first & refunding mortgage gold 4's, 1934	70
Chicago, Rock Island & Pacific Railway Co. general mortgage gold 4's, 1988	82
Chicago, St. Louis & New Orleans Railroad Co. consolidated mortgage gold 5's, 1951	107
Chicago, St. Louis & New Orleans Railroad Co. Memphis Division first mortgage gold 4's, 1951	87
Chicago, St. Paul, Minneapolis & Omaha Railway Co. consolidated 6's, 1930	116
Chicago, St. Paul, Minneapolis & Omaha Railway Co. debenture gold 5's, 1930	100
Chicago, St. Paul & Minneapolis Railway Co. first mortgage 6's, 1918	116
Cincinnati, Hamilton & Dayton Railway Co. first & refunding mortgage gold 4's, 1959 (guaranteed)	74
Cincinnati Northern Railroad Co. first mortgage gold 4's, 1951	77
Choctaw, Oklahoma & Gulf Railroad Co. consolidated mortgage 5's, 1952	89
Cleveland & Marietta Railway Co. first mortgage 4½'s, 1935	99
Cleveland & Mahoning Valley Railway Co. consolidated 5's, 1938	102
Cleveland & Pittsburgh Railroad Co. general mortgage 4½'s, 1942, series A	102
Cleveland & Pittsburgh Railroad Co. general mortgage 4½'s, 1942, series B	102
Cleveland, Akron & Columbus Railway Co. general mortgage 5's, 1927	102
Cleveland, Cincinnati, Chicago, & St. Louis Railway Co. (Cairo, Vincennes & Chicago Railway Co.) first mortgage 4's, 1939	84
Cleveland, Cincinnati, Chicago, & St. Louis Railway Co. general mortgage 4's, 1993	77

Railroad bonds—Continued	%
Cleveland, Cincinnati, Chicago, & St. Louis Railway Co. (St. Louis Division) first collateral trust mortgage 4's, 1990	80
Cleveland, Cincinnati, Chicago, & St. Louis Railway Co. gold debenture 4½'s, 1931	84
Cleveland, Columbus, Cincinnati & Indianapolis Railway Co. general consolidated mortgage 6's, 1934	115
Cleveland Short Line Railway Co. first mortgage guaranteed 4½'s, 1961	90
Colorado & Southern Railway Co. first mortgage gold 4's, 1929	90
Colorado & Southern Railway Co. refunding & extension mortgage gold 4½'s, 1935	82
Colorado & Southern Railway Co. 5% equipment bonds, series A, 1916	100
Colorado & Southern Railway Co. 5% equipment bonds, series A, 1917	100
Cleveland, Cincinnati, Chicago & St. Louis Railway Co. (Cincinnati, Wabash & Michigan Division) gold 4's, 1991	75
Cumberland & Pennsylvania Railroad Co. first mortgage gold 5's, 1921	100
Delaware & Hudson Co. first lien equipment 4½'s, 1922	100
Delaware & Hudson Co. first & refunding mortgage 4's, 1943	97
Delaware & Hudson Company Pennsylvania Division first mortgage 7's, 1917	102
Denver & Rio Grande Railroad Co. improvement mortgage gold 5's, 1928	80
Denver & Rio Grande Railroad Co. first consolidated mortgage gold 4's, 1936	77
Denver & Rio Grande Railroad Co. first consolidated mortgage gold 4½'s, 1936	83
Des Plaines Valley Railway Co. first mortgage 4½'s, 1947, registered	96
Detroit & Mackinac Railway Co. first lien gold 4's, 1995	77
Detroit & Mackinac Railway Co. mortgage gold 4's, 1995	75
Detroit, Grand Haven & Milwaukee Railway Co. first equipment mortgage 6's, 1918	98
Detroit, Grand Haven & Milwaukee Railway Co. consolidated 6's, 1918	94
Detroit Terminal & Tunnel Co. first morgage gold 4½'s, 1961	91
Duluth, Missabe & Northern general mortgage 5's, 1941	103
Duluth, South Shore & Atlantic Railway Co. first mortgage 5's, 1937	91
East Tennessee, Virginia & Georgia Railway Co. first mortgage gold 5's, 1930	104
East Tennessee, Virginia & Georgia Railway Co. consolidated mortgage gold 5's, 1956	105
El Paso & Rock Island Railway Co. first mortgage 5's, 1951	94
Elgin, Joliet & Eastern Railway Co. first mortgage 5's, 1921	102
Erie Railway Co. first consolidated mortgage gold 7's, 1920	108
Erie Railroad Co. Pennsylvania collateral gold 4's, 1951	88
Erie Railroad Co. general mortgage convertible 4's, series A, 1953	69
Erie Railroad Co. general mortgage convertible 4's, series B, 1953	72
Erie Railroad Co. first consolidated mortgage gold prior lien 4's, 1996	83
Erie Railroad Co. first consolidated mortgage gold general lien 4's, 1996	72
Erie Railroad Co. 3-year 5½% collateral trust notes April 1, 1917	101
Evansville & Terre Haute Railroad Co. first consolidated 6's, 1921	100
Florida Central & Peninsula Railroad Co. first consolidated mortgage gold 5's, 1943	101

Railroad bonds—Continued	%
Florida East Coast Railway Co. first mortgage gold 4½'s, 1959	91
Ft. Worth & Denver City Railway Co. equipment trust 5's, series B, 1916	100
Ft. Worth & Denver City Railway Co. equipment trust 5's, series B, 1917	100
Ft. Worth & Denver City Railway Co. first mortgage 6's, 1921	104
Galveston, Harrisburg & San Antonio, Mexican & Pacific extension first mortgage 5's, 1931	102
Gila Valley, Globe & Northern Railway Co. first mortgage gold 5's, 1924	101
Georgia, Carolina & Northern Railway Co. first mortgage 5's, 1929	101
Georgia Railroad & Banking Co. refunding debenture 4's, 1947	86
Gouveneur & Oswegatchie Railroad Co. first mortgage 5's, 1942	105
Grand Rapids & Indiana Railway Co. first mortgage gold 4½'s, 1941	99
Great Northern Railway Co. first & refunding mortgage 4¼'s, 1961	99
Gulf & Ship Island Railroad Co. first refunding & terminal 5's, 1952	83
Hocking Valley Railway Co. first consolidated mortgage gold 4½'s, 1999	90
Houston & Texas Central Railroad Co. first mortgage gold 5's, 1937	105
Houston & Texas Central Railroad Co., Waco & Northwestern Division first mortgage gold 6's, 1930	100
Houston Belt & Terminal Railway Co. first sinking fund 5's, 1937	93
Illinois Central Railroad Co. trust 3½'s 1950, sterling	$395 per £100
Illinois Central Railroad Co. first mortgage 3's, 1951, sterling	$350 per £100
Illinois Central Railroad Co. first mortgage 4's, 1951, sterling	$435 per £100
Illinois Central Railroad Co. first mortgage gold 3½'s, 1951	84
Illinois Central Railroad Co. first mortgage extension 3½'s, 1951	83
Illinois Central Railroad Co. first mortgage extension gold 4's, 1951	97
Illinois Central Railroad Co. first mortgage gold 4's, 1952	87
Illinois Central Railroad Co. first mortgage gold 4's, 1953	84
Illinois Central Railroad Co. first refunding mortgage gold 4's, 1955	88
Illinois Central Railroad Co. Cairo Bridge, gold 4's, 1950	89
Illinois Central Railroad Co. Springfield Division first mortgage 3½'s, 1951	79
Illinois Central Railroad Co. Louisville Division & Terminal first mortgage gold 3½'s, 1953	78
Illinois Central Railroad Co. Chicago, St. Louis & New Orleans joint 5's, 1963, series A	100
Illinois Central Railroad Co. Chicago, St. Louis & New Orleans joint 5's, 1963, series B, sterling	$485 per £100
Illinois Central Railroad Co. St. Louis Division & Terminal first mortgage 3½'s, 1951	78
Interborough Rapid Transit Company first mortgage 5's, 1966	97
International & Great Northern Railway Co. purchase money 6's, 1919	94
Iowa Central Railway Co. first mortgage 5's, 1938	86
Jamestown, Franklin & Clearfield Railroad Co. first mortgage 4's, 1959	89
Kansas City Southern Railway Co. first mortgage 3's, 1950	67
Kansas City Southern Railway Co. refunding & improvement gold 5's, 1950	89
Kansas City Terminal Railway Co. first mortgage gold 4's, 1960	87

Railroad bonds—Continued	%
Kanawha & Michigan Railway Co. second mortgage 5's, 1927	95
Kentucky & Indiana Terminal Railroad Co. first mortgage 4½'s, 1961	$420 per £100
Kentucky Central Railway Co. first mortgage gold 4's, 1987	87
Kentucky Central Railway Co. first mortgage gold 4's, 1987, registered	85
Knoxville & Ohio Railroad Co. first mortgage gold 6's, 1925	109
Kansas City, Ft. Scott & Memphis Railway Co. refunding mortgage gold 4's, 1936	74
Lake Erie & Western Railroad Co. first mortgage gold 5's, 1937	98
Lake Erie & Western Railroad Co. second mortgage 5's, 1941	80
Lake Shore & Michigan Southern Railway Co. first mortgage gold 3½'s, 1997	83
Lake Shore & Michigan Southern Railway Co. debenture gold 4's, 1928	95
Lake Shore & Michigan Southern Railway Co. debenture 4's, 1928, registered	94
Lake Shore & Michigan Southern Railway Co. debenture gold 4's, 1931	93
Lehigh & New York Railroad Co. first mortgage gold 4's, 1945	89
Lehigh Valley Railway Co. first mortgage gold 4½%, 1940	100
Lehigh Valley Terminal Railway Co. first mortgage 5's, 1941	100
Lehigh Valley Terminal Railway Co. first mortgage 5's, 1941, registered	109
Lehigh Valley Railroad Co. general consolidated mortgage gold 4's, 2003	89
Lehigh Valley Railroad Co. general consolidated mortgage gold 4½'s, 2003	99
Lehigh Valley Railroad Co. consolidated mortgage 6's, 1923	110
Long Island Railroad Co. consolidated mortgage gold 5's, 1931	105
Long Island Railroad Co. general mortgage gold 4's, 1938	84
Long Island Railroad Co. refunding mortgage gold 4's, 1949	85
Long Island Railroad Co. refunding 4's, 1949, registered	83
Long Island Railroad Co. debenture gold 4's, 1934	92
Long Island Railroad Co. North Shore Branch first mortgage 5's, 1932	98
Louisville & Jeffersonville Bridge Co. first mortgage 4s, 1945	79
Louisville & Nashville Railroad Co. general mortgage sinking fund gold 6's, 1930	112
Louisville & Nashville Railroad Co. first mortgage trust 5's, 1931	103
Louisville & Nashville Railroad Co. first mortgage 50-year 5's, 1937	108
Louisville & Nashville Railroad Co. unified mortgage 4's, 1940	93
Louisville & Nashville Railroad Co. unified mortgage 4's, 1940, registered	92
Louisville & Nashville Railroad Co., Atlanta, Knoxville & Cincinnati Division mortgage 4's, 1955, registered	84
Louisville & Nashville Railroad Co., Atlanta, Knoxville & Cincinnati Division mortgage 4's, 1935, registered	84
Louisville & Nashville Railroad Co., New Orleans & Mobile Division first mortgage gold 6's, 1930	113
Louisville & Nashville-Southern "Monon", collateral joint 4's, 1952	78
Long Dock Co. consolidated mortgage 6's, 1935	122
Macon, Dublin & Savannah Railroad Co. first mortgage 5's, 1947	92
Manhattan Railway Co. consolidated 4's, 1990	89
Maryland & Pennsylvania Railroad Co. first mortgage 4's, 1951	77
Michigan Central Railroad Co. debenture 4's, 1929	84
Michigan Central Railroad Co., Grand River Valley Railroad Co. first mortgage 4's, 1959	89
Michigan Central Railroad Co. first mortgage 3½'s, 1952	82

Railroad bonds—Continued	%
Milwaukee, Lake Shore & Western Railway Co. consolidated first mortgage 6's, 1921	107
Milwaukee, Lake Shore & Western Railway Co. improvement & extension 5's, 1929	106
Milwaukee, Lake Shore & Western Railway Co., Michigan Division first mortgage 6's, 1924	110
Minneapolis, S. S. M. & Atlantic Railway Co. first mortgage 4's, 1926	97
Minneapolis, St. Paul & S. S. M. Railway Co. euipment trust 4½'s, "E", July 1919	100
Minneapolis, St. Paul & S. S. M. Railway Co. equipment trust 4½'s, "E", Jan. 1922	100
Minneapolis, St. Paul & S. S. M. Railway Co. equipment trust 4½'s, "E", July 1922	100
Minneapolis, St. Paul & S. S. M. Railway Co. equipment 4½'s, "C", maturing in equal installments semiannually Sept. 1918 to March 1921, inclusive	100
Minneapolis, St. Paul & S. S. M. Railway Co. equipment trust 4½'s, "D", 1920	100
Minneapolis, St. Paul & S. S. M. Railway Co. first consolidated mortgage gold 4's, 1938	89
Minneapolis, St. Paul & S. S. M. Railway Co. first consolidated mortgage 4's, 1938, registered	89
Minneapolis, St. Paul & S. S. M. Railway Co. second mortgage gold 4's, 1949	82
Minneapolis, St. Paul & S. S. M. Railway Co. Chicago Terminal first 4's, 1941	85
Minneapolis & Pacific Railway Co. first mortgage 4's, 1936	90
Missouri, Kansas & Texas Railway Co. first mortgage gold 4's, 1990	74
Mississippi Central Railway Co. first mortgage 5's, 1949	92
Missouri Pacific Railway Co. first consolidated mortgage 6's, 1920	101
Mobile & Birmingham Railroad Co. prior lien 5's, 1945	102
Mobile & Birmingham Railroad Co. first mortgage 4's, 1945	69
Mobile & Ohio Railroad Co. general mortgage 4's, 1938	75
Mobile & Ohio Railroad Co. first mortgage Montgomery Division 5's 1947	99
Mobile & Ohio Railroad Co. first mortgage 6's, 1927	113
Mohawk & Malone Railway Co. first mortgage 4's, 1991	92
Monongahela River Railroad Co. first mortgage 5's, 1919	100
Minneapolis Union Railway Co. first mortgage 6's, 1922	108
Minneapolis & St. Louis Railway Co. Pacific Extension 6's, 1921	103
Minneapolis & St. Louis Railway Co. first mortgage 7's, 1927	109
Minneapolis & St. Louis Railway Co. first consolidated mortgage gold 5's, 1934	85
Montana Central Railway Co. first mortgage 6's, 1937	122
Nashville, Chattanooga & St. Louis Railway Co. first consolidated mortgage 5's, 1928	105
Nashville, Florence & Sheffield Railway Co. first mortgage 5's, 1937	105
New Orleans & Northeastern Railroad Co. prior lien extension 5's, 1940	103
New Orleans Terminal Railway Co. first mortgage 4's, 1953, series A	69
New York & Putnam Railroad Co. consolidated mortgage 4's, 1992	88
New York & Rockaway Beach Railway Co. first mortgage 5's, 1927	102
New York, Brooklyn & Manhattan Beach Railway Co. first consolidated mortgage 5's, 1936	102
New York Central Railroad Co. convertible debenture 6's, 1935	112
New York Central Railroad Co. consolidated mortgage 4's, series A, 1998	82

Railroad bonds—Continued	%
New York Central & Hudson River Railroad Co. equipment trust 4½'s, series 1907, due 1918	100
New York Central Lines equipment trust 4½'s, series 1910, due 1917	100
New York Central Lines equipment trust 4½'s, series 1910, due 1919	100
New York Central Lines equipment trust 4½'s, series 1910, due 1920	100
New York Central Lines equipment trust 4½'s, series 1910, due 1921	100
New York Central Lines equipment trust 4½'s, series 1910, due 1922	100
New York Central Lines equipment trust 4½'s, series 1910, due 1923	100
New York Central Lines equipment trust 4½'s, series 1910, due 1925	100
New York Central Lines equipment trust 4½'s, series 1912, due 1918	100
New York Central Lines equipment trust 4½'s, series 1912, due 1919	100
New York Central Lines equipment trust 4½'s, series 1912, due 1923	100
New York Central Lines equipment trust 4½'s, series 1912, due 1924	100
New York Central Lines equipment trust 4½'s, series 1912, due 1925	100
New York Central Lines equipment trust 4½'s, series 1912, due 1926	100
New York Central Lines equipment trust 4½'s, series 1912, due 1927	100
New York Central Lines equipment trust 4½'s, series 1913, due 1918	100
New York Central Lines equipment trust 4½'s, series 1913, due 1919	100
New York Central Lines equipment trust 4½'s, series 1913, due 1920	100
New York Central Lines equipment trust 4½'s, series 1913, due 1921	100
New York Central Lines equipment trust 4½'s, series 1913, due 1922	100
New York Central Lines equipment trust 4½'s, series 1913, due 1923	100
New York Central Lines equipment trust 4½'s, series 1913, due 1924	100
New York Central Lines equipment trust 4½'s, series 1913, due 1925	100
New York Central Lines equipment trust 4½'s, series 1913, due 1926	100
New York Central Lines equipment trust 4½'s, series 1913, due 1927	100
New York Central Lines equipment trust 4½'s, series 1913, due 1928	100
New York Central Lines equipment trust of 1907 5's, 1916	100
New York Central & Hudson River Railroad Co. Boston & Albany equipment trust 4½'s, 1925	99
New York Central & Hudson River Railroad Co. Boston & Albany equipment trust 4½'s, 1917	100
New York Central & Hudson River Railroad Co. Boston & Albany equipment trust 4½'s, 1926	99
New York Central & Hudson River Railroad Co. Boston & Albany equipment trust 4½'s, 1919	100
New York Central & Hudson River Railroad Co. Boston & Albany equipment trust 4½'s, 1927	99
New York Central & Hudson River Railroad Co. debenture 4's, 1942	86

Railroad bonds—Continued	%
New York Central & Hudson River Railroad Co. first mortgage 3½'s, 1997	81
New York Central & Hudson River Railroad Co. first mortgage 3½'s, registered	80
New York Central & Hudson River Railroad Co. debenture 4's, 1934	89
New York Central & Hudson River Railroad Co. Lake Shore collateral 3½'s, 1998, assenting bonds	82
New York Central & Hudson River Railroad Co. Lake Shore collateral 3½'s, 1998, non-assenting bonds	75
New York Central & Hudson River Railroad Co. refunding & Improvement 4½'s, 2013	92
New York Central & Hudson River Railroad Co. Michigan Central collateral 3½'s, 1998	74
New York, Chicago & St. Louis Railroad Co. first mortgage 4's, 1937	90
New York, Chicago & St. Louis Railroad Co. debenture 4's, 1931	79
New York Connecting Railroad Co. first mortgage 4½'s, 1953, "A"	98
New York, Lake Erie & Western Railroad Co. first consolidated mortgage 7's, 1920	108
New York, New Haven & Hartford Railroad Co. convertible debenture 6's, 1948	111
New York, New Haven & Hartford Railroad Co. debenture 3½'s, 1954	70
New York, New Haven & Hartford Railroad Co. debenture 4's, 1955	77
New York, New Haven & Hartford Railroad Co. convertible debenture 3½'s, 1956	68
New York, New Haven & Hartford Railroad Co. convertible debenture 4's, 1956	77
New York, Ontario & Western Railway Co. refunding mortgage 4's, 1992	75
New York, Ontario & Western Railway Co. refunding mortgage 4's 1992, registered	74
New York, Ontario & Western Railway Co. general mortgage 4's, 1955	75
New York, Susquehanna & Western Railroad Co. first refunding mortgage 5's, 1937	93
New York, Susquehanna & Western Railroad Co. Terminal first 5's, 1943	105
New York, Westchester & Boston Railway Co. first mortgage 4½'s, 1946	72
Norfolk & Western Railway Co. 10–20 year convertible 4's, 1932	130
Norfolk & Western Railway Co. 10–25 year convertible 4's, 1932	130
Norfolk & Western Railway Co. 10–25 year convertible 4½'s, 1938	130
Norfolk & Western Railway Co. first consolidated mortgage 4's, 1996	92
Norfolk & Western Railway Co. divisional first lien & general mortgage 4's, 1944	88
Norfolk & Western Railway Co. New River Division first mortgage 6's, 1932	120
Norfolk & Western Railroad Co. general mortgage 6's, 1931	119
Norfolk & Western Railroad Co. improvement & extension 6's, 1934	120
Norfolk & Western Railway Co., Pocahontas Coal & Coke Co. purchase money joint 4's, 1941	88
Norfolk Terminal Railway Co. first mortgage 4's, 1961	83
Northern Pacific-Great Northern joint gold bonds, Burlington collateral 4's, 1921	97
Northern Pacific-Great Northern joint gold bonds, Burlington collateral 4's, 1921, registered	97

Railroad bonds—Continued	%
Northern Pacific Railway Co. prior lien 4's, 1997	91
Northern Pacific Railway Co. prior lien 4's, 1997, registered	90
Northern Pacific Railway Co. general lien 3's, 2047	65
Northern Pacific Railway Co. refunding & improvement mortgage 4½'s, 2047, "A"	96
Northern Pacific Railway Co., St. Paul & Duluth Division 4's, 1996	91
Northern Pacific Railway Co., St. Paul & Duluth Division 4's, 1996, registered	90
New York & Erie Railroad Co. fourth mortgage 5's, 1920	101
Newport & Cincinnati Bridge Co. general mortgage 4½'s, 1945	97
New York & Northern Railway Co. first mortgage 5's, 1927	105
Ogdensburg & Lake Champlain Railway Co., first mortgage 4's, 1948	68
Oregon & California Railroad Co. first mortgage 5's, 1927	100
Oregon Railroad & Navigation Co. consolidated mortgage 4's, 1946	91
Oregon Short Line Railway Co. first mortgage 6's, 1922	107
Oregon Short Line Railroad Co. refunding mortgage 4's, 1929	91
Oregon Short Line Railroad Co. consolidated mortgage 5's, 1946	106
Oregon-Washington Railroad & Navigation Co. first & refunding mortgage 4's, 1961, series A	83
Oregon-Washington Railroad & Navigation Co. first & refunding mortgage 4's, 1961, "A" registered	83
Oregon-Washington Railroad & Navigation Co. first & refunding mortgage 4's, 1961, series B, sterling	$400 per £100
Pacific Railroad of Missouri second mortgage extended sinking fund 5's, 1938	101
Pennsylvania Company first mortgage 4½'s, 1921	100
Pennsylvania Company guaranteed gold debenture 3½% certificates, 1916	100
Pennsylvania Company guaranteed 3½% gold trust certificates, 1942, series C	84
Pennsylvania Company guaranteed 4% gold trust certificates, 1944, series D	84
Pennsylvania Company 15–25 year 4% loan certificates, 1931	94
Pennsylvania Company 40-year trust certificate 4's, 1952	92
Pennsylvania Railroad Co. consolidated mortgage 4's, 1943	98
Pennsylvania Railroad Co. consolidated mortgage 3½'s, 1945, sterling	$400 per £100
Pennsylvania Railroad Co. consolidated mortgage 4's, 1948	98
Pennsylvania Railroad Co. consolidated mortgage, 4's, 1948, sterling	$400 per £100
Perkiomen Railroad Co. second series mortgage 5's, 1918	100
Philadelphia & Erie Railroad Co. 6's, 1920	106
Philadelphia & Reading Railroad Co. improvement mortgage 4's, 1947	97
Philadelphia, Baltimore & Washington Railroad Co. first mortgage 4's, 1943	98
Pittsburgh & Western Railway Co. first mortgage 4's, 1917	99
Pittsburgh, Cincinnati, Chicago & St. Louis Railway Co. consolidated 4½'s, 1940, series A	101
Pittsburgh, Cincinnati, Chicago & St. Louis Railway Co. consolidated 4½'s, 1942, series B	101
Pittsburgh, Cincinnati, Chicago & St. Louis Railway Co. consolidated 4½'s, 1942, series C	101
Pennsylvania Railroad Co. general mortgage 4½'s, 1965, "A"	101
Pittsburgh, Cincinnati, Chicago & St. Louis Railway Co. consolidated 4's, 1945, series D	94
Pittsburgh, Cincinnati, Chicago & St. Louis Railway Co. consolidated 4's, 1957, series G	93
Pueblo Union Depot & Railroad Co. first mortgage 6's, 1919	101

Railroad bonds—Continued	%
Reading Company & Philadelphia & Reading Coal & Iron Co. general mortgage 4's, 1997	95
Reading Co.—Jersey Central collateral trust 4's, 1951	96
Rio Grande Junction Railway Co. first mortgage 5's, 1939	85
Rio Grande & Western first-trust mortgage 4's, 1939	72
Rio Grande Western Railway Co. consolidated mortgage 4's, 1949	62
Rochester & Pittsburgh Railroad Co. first mortgage 6's, 1921	108
Rutland Railroad Co. first consolidated mortgage 4½'s, 1941	80
Rome, Watertown & Ogdensburg Railroad Co. first consolidated 5's, 1922	103
St. Lawrence & Adirondack Railway Co. first mortgage 5's, 1996	98
St. Lawrence & Adirondack Railway Co. second mortgage 6's, 1996	100
St. Louis Bridge Co. first mortgage 7's, 1929	114
St. Louis, Iron Mountain & Southern Railway Co. general consolidated railway & land grant mortgage 5's, 1931	100
St. Louis, Iron Mountain & Southern Railway Co. unifying & refunding mortgage 4's, 1929	80
St. Louis, Iron Mountain & Southern Railway Co. River & Gulf Division first mortgage 4's, 1933	74
St. Louis Merchants Bridge Terminal first mortgage 5's, 1930	100
St. Louis, Peoria & Northwestern Railway Co. first mortgage 5's, 1948	105
St. Louis Southwestern Railway Co. first 4's, 1989	76
St. Louis Southwestern Railway Co. consolidated mortgage 4's, 1932	60
St. Louis Terminal Cupples Station & Property first mortgage 4½'s, 1917	99
St. Paul & Northern Pacific Railway Co. 6's, 1923	109
St. Paul, Minneapolis & Manitoba Railway Co. consolidated 4½'s, 1933	102
St. Paul, Minneapolis & Manitoba Railway Co. consolidated 4's, 1933	96
St. Paul, Minneapolis & Manitoba Railway Co. consolidated 6's, 1933	119
St. Paul, Minneapolis & Manitoba Railway Co. Montana Extension first mortgage 4's, 1937	95
St. Paul, Minneapolis & Manitoba Railway Co. Pacific Extention first mortgage 4's, 1940, sterling	$450 per £100
St. Paul Union Stock Yards Co. first mortgage 5's, 1916	100
Salt Lake City Union Depot & Railroad first mortgage 5's, 1938	86
San Antonio & Aransas Pass Railway Co. first mortgage 4's, 1943	66
Savannah, Florida & Western Railway Co. first mortgage 5's, 1934	105
Savannah, Florida & Western Railway Co. first mortgage 6's, 1934, registered	118
Scioto Valley & New England Railroad Co. first mortgage 4's, 1989	91
Seaboard Air Line Railway Co. first mortgage 4's, 1950	78
Seaboard Air Line Railway Co. Atlanta & Birmingham Division first mortgage 4's, 1933	80
Seaboard Air Line Railway Co. adjustment mortgage 5's, 1949	84
Seaboard Air Line Railway Co. refunding mortgage 4's, 1959	65
South & North Alabama Railroad Co. consolidated mortgage 5's, 1936	106
South Carolina & Georgia Railroad Co. first mortgage 5's, 1919	100
Southern Pacific Company convertible 5's, 1934	104
Southern Pacific Company first refunding mortgage 4's, 1955	89

Railroad bonds—Continued	%
Southern Pacific Company first refunding mortgage 4's, 1955, registered	88
Southern Pacific Company Central Pacific stock collateral 4's, 1949	84
Southern Pacific Company San Francisco Terminal 4's, 1950	83
Southern Pacific Company convertible 4's, 1929	86
Southern Pacific Company 20-year gold 4½'s, 1929	88
Southern Railway Co. first & consolidated 5's, 1994	100
Southern Railway Co. development & general mortgage 4's, 1956	71
Southern Railway Co. St. Louis Division first mortgage 4's, 1951	80
Southern Railway Co. East Tennessee reorganization lien 5's, 1938	100
Spokane International Railway Co. first mortgage 5's, 1955	85
Tennessee Coal, Iron & Railroad Co. consolidated first "Birmingham Division" 6's, 1917	100
Terminal Railroad Association of St. Louis 4½'s, 1939	98
Terminal Railroad Association of St. Louis first consolidated mortgage 5's, 1944	103
Terminal Railroad Association of St. Louis general mortgage 4's, 1953	82
Texas & Pacific Railway Co. first mortgage 5's, 2000	95
Texas & Pacific Railway Co. Louisiana Division Branch Lines first mortgage 5's, 1931	80
Toledo & Ohio Central Railway Co. general mortgage 5's, 1935	88
Toledo & Ohio Central Railway Co. Western Lines 5's, 1935	98
Toledo, St. Louis & Western Railway Co. prior lien 3½'s, 1925	79
Toledo, Walhonding Valley & Ohio Railroad Co. first mortgage 4½'s, 1931, series A	99
Toledo, Walhonding Valley & Ohio Railroad Co. first mortgage 4½'s, 1933, series B	99
Toledo, Walhonding Valley & Ohio Railroad Co. first mortgage, series C, 4's, 1942	91
Toronto, Hamilton & Buffalo Railway Co. first mortgage 4's, 1946	84
Toronto, Hamilton & Buffalo Railway Co. equipment 4½'s, 1922, series A	100
Union Pacific Railroad Co. convertible 4's, 1927	93
Union Pacific Railroad Co. first mortgage land grant 4's, 1947	96
Union Pacific Railroad Co. first mortgage land grant 4's, 1947, registered	95
Union Pacific Railroad Co. first lien & refunding 4's, 2008, "A"	89
Union Pacific Railroad Co. first lien and refunding 4's, 2008, "B"	$430 per £100
United New Jersey Railroad & Canal Co. general mortgage 4's, 1944	99
Utica & Black River Railroad Co., first mortgage 4's, 1922	97
Vandalia Railroad Co. consolidated mortgage 4's, 1957, series B	90
Vandalia Railroad Co. consolidated mortgage 4's, 1957, series B, registered	90
Virginia Railway first mortgage 5's, 1962, "A"	98
Virginia Midland Railway Co. general mortgage 5's, 1936	106
Virginia & Southwestern Railway Co. first mortgage 5's, 1003	105
Wabash Railroad Co. first mortgage 5's, 1939	103
Wabash Railroad Co. second mortgage 5's, 1939	98
Wabash Railroad Co. equipment trust sinking fund 5's, 1921	100
Wabash Railroad Co. Des Moines Division first mortgage 4's, 1939	80
Wabash Railroad Co. Toledo & Chicago Division first mortgage 4's, 1941	80

Railroad bonds—Continued	%
Washington Central Railway Co. first mortgage 4's, 1948	85
Washington Terminal Co. first mortgage 3½'s, 1945	84
West Shore Railroad Co. first mortgage 4's, 2361	90
West Virginia & Pittsburgh Railroad Co. first mortgage 4's, 1990	84
Western New York & Pennsylvania Railroad Co. first mortgage 5's, 1937	104
Western New York & Pennsylvania Railroad Co. general mortgage 4's, 1943	84
Western Pennsylvania Railroad Co. 4's, 1928	98
Western Maryland Railroad Co. first consolidated mortgage 4's, 1952	71
Wheeling & Lake Erie Railroad Co. first mortgage 5's, 1926	99
Wheeling & Lake Erie Railroad Co. first consolidated mortgage 4's, 1949	71
Wheeling & Lakie Erie Railroad Co. Wheeling Division first mortgage 5's, 1928	97
Wheeling & Lake Erie Railroad Co. extension and improvement 5's, 1930	95
Wichita Union Terminal Railway Co. first mortgage 4½'s, 1941	91
Wilkesbarre & Eastern Railroad Co. first mortgage 5's, 1942	80
Wilmar & Sioux Falls Railway Co. first mortgage 5's, 1938	109
Wisconsin Central Railway Co. first general mortgage 4's, 1949	84
Wisconsin Central Railway Co. Superior & Duluth Division & Terminal 4's, 1936	85
Washington, Ohio & Western Railroad Co. first mortgage 4's, 1924	91
Winston Salem Southbound Railroad Co. first mortgage 4's, 1960	85
Industrial Shares:	
American Locomotive Co. preferred	$105
American Car & Foundry Co. preferred	115
American Sugar Refining Co. preferred	118
American Sugar Refining Co. common	110
American Cotton Oil Co. preferred	100
American Tobacco Co. preferred	107
American Smelters Securities Co. preferred B	85
Baldwin Locomotive Works preferred	105
Cluett Peabody & Co. preferred	108
Central Leather Co. preferred	112
Deere & Co. preferred	90
Eastman Kodak Co. preferred	118
International Harvester Corporation preferred	105
Ingersoll-Rand Company preferred	104
Liggett & Myers Company preferred	121
P. Lorillard & Company preferred	118
Montgomery, Ward & Co. preferred	113
Western Union Telegraph Company	95
Industrial bonds:	
American Telephone & Telegraph Co. collateral trust 4's, 1929	91
American Telephone & Telegraph Co. convertible 4½'s, 1933	110
American Telephone & Telegraph Co. convertible 4's, 1936	103
American Thread Co. first mortgage 4's, 1919	98
Armour & Co. real estate first mortgage 4½'s, 1939	93
American Agricultural Chemical Co. convertible debenture 5's, 1924	97
Bethlehem Steel Co. first extended sinking fund 5's, 1926	103
Bethlehem Steel Co. first lien & refunding 5's, 1942, "A"	100
Buffalo General Electric Co. first mortgage 5's, 1939	101
Bush Terminal Co. consolidated 5's, 1955	87
Central Leather Co. first lien 5's, 1925	102
Cumberland Telephone & Telegraph Co. first general mortgage 5's, 1937	98

Industrial bonds—Continued	%
Chicago Telephone Co. first mortgage 5's, 1923	100
Consolidation Coal Co. first & refunding sinking fund 5's, 1950	89
Consolidation Coal Co. converticle 6's, 1923	102
Corn Products Refining Co. 25-year debenture sinking fund 5's, 1931	98
Edison Electric Illuminating Co. of Brooklyn first consolidated 4's, 1939	87
Edison Electric Co. of New Orleans first mortgage 5's, 1929	100
General Electric Co. debenture 3½'s, 1942	82
General Electric Co. debenture 5's, 1952	103
Houston Electric Co. first mortgage 5's, 1925	97
Illinois Steel Co. defenture 4½'s, 1940	90
Indiana Steel Co. first mortgage 5's, 1952	102
Ingersoll-Rand Company first mortgage 5's, 1935	102
Lackawanna Steel Co. convertible 5's, 1950, "A"	92
Lackawanna Steel Co. first convertible 5's, 1923	98
Lehigh Valley Coal Co. first mortgage 5's, 1933	104
Liggett & Myers Tobacco Co. 7's, 1944	123
Liggett & Myers Tobacco Co. 5's, 1951	101
P. Lorillard & Co. 5's, 1951	101
P. Lorillard & Co., 7's, 1944	123
Mississippi River Power Co. first mortgage 5's, 1951	77
Montana Power Co. first & refunding mortgage 5's, 1943	97
Michigan State Telephone Co. first mortgage 5's, 1924	100
Minneapolis General Electric Co. 5's, 1934	101
Mutual Union Telegraph Co. first extended mortgage 5's, 1941	99
National Tube Co. first mortgage 5's, 1952	101
New Orleans City & Lake Railroad Co. first mortgage 5's, 1943	106
New York Gas, Electric Light, Heat & Power Co. first mortgage 5's, 1948	104
New York Gas, Electric Light, Heat & Power Co. purchase money 4's, 1949	84
New York Telephone Co. first & general mortgage 4½'s, 1939	97
New York Telephone Co. first & general mortgage 4½'s, 1939, sterling	$470 per £100
Niagara Falls Power Co. first mortgage 5's, 1932	102
Niagara Falls Power Co. refunding & general mortgage 6's, 1932	105
New York & Westchester Lighting Co. debenture 5's, 1954	95
New York & Westchester Lighting Co. general mortgage 4's, 2004	80
Northwestern Telegraph Co. first funding 4½'s, 1934	93
Pacific Light & Power Co. first mortgage 5's, 1942	96
Pacific Light & Power Corporation 1st & refunding sinking fund 5's, 1951	87
Pacific Power & Light Co. first refunding sinking fund 5's, 1930	92
Pacific Telephone & Telegraph Co. first collateral trust 5's, 1937	100
Pennsylvania Water & Power Co. first sinking fund 5's, 1940	90
Philadelphia Company convertible debenture 5's, 1919	98
Philadelphia Company convertible debenture 5's, 1922	88
Philadelphia Company first mortgage collateral trust 5's, 1949	100
Philadelphia Company consolidated collateral trust 5's, 1951	88
Southern Bell Telephone & Telegraph Co. first mortgage 5's, 1941	100
Swift & Co. first sinking fund 5's, 1944	99
United Fruit Co. 5% notes, 1918	100
United Fruit Co. sinking fund 4½'s, 1923	97
United Fruit Co. sinking fund 4½'s, 1925	97

	%
Industrial bonds—Continued	
United States Steel Corporation fifty-year 5's, 1951, series A	112
United States Steel Corporation fifty-year 5's, 1951, series B	112
United States Steel Corporation fifty-year 5's, 1951, series C	112
United States Steel Corporation fifty-year 5's, 1951, series F	112
United States Steel Corporation 10–60 year sinking fund 5's, 1963	105
United States Rubber Co. collateral trust 6's, 1918	102
Virginia-Carolina Chemical Co. first mortgage 5's, 1923	97
Virginia-Carolina Chemical Co. convertible debenture 6's, 1924	98
Western Electric Co. first mortgage 5's, 1922	102
Western Telephone & Telegraph Co. collateral trust 5's, 1932	100
Western Union Telegraph Co. collateral trust 5's, 1938	100
Western Union Telegraph Co. funding & real estate 4½'s, 1950	94
West Penn Traction Co. three year 6% notes, 1917	99
Washington Water Power Co. first refunding mortgage 5's, 1939	99
Wheeling Electric Co. first mortgage 5's, 1941	95
Westchester Lighting Co. first mortgage 5's, 1950	101
Miscellaneous stocks:	
Cities Service Co. preferred	85
Consolidated Gas, Electric Light & Power Co. of Baltimore common	113
Consolidated Gas, Electric Light & Power Co. of Baltimore preferred	114
Consolidated Gas Co. of New York	135
Miscellaneous bonds:	
American Power & Light Co. 10-year 6's, 1921	99
Bay Counties Power Co. first consolidated 5's, 1930	100
Boston Electric Light Co. first mortgage 5's, 1924	102
Brooklyn Rapid Transit Co. secured 5% notes, 1918	100
Brooklyn Rapid Transit Co. first & refunding mortgage 4's, 2002	78
Brooklyn Rapid Transit Co. 5's, 1945	100
Brooklyn Union Elevated Co. first mortgage 5's, 1950	100
Burlington Gas Light Co. first 5's, 1955	92
Butte Electric & Power Co. first mortgage 5's, 1951	99
Broadway & Seventh Avenue Railroad Co. first consolidated mortgage 5's, 1943	99
California Gas & Electric Corporation general & collateral trust 5's, 1933	102
California Gas & Electric Corporation unifying & refining sinking fund 5's, 1937	98
California Electric Generating Co. first 5's, 1948, "A"	87
Central Georgia Power Co. first mortgage sinking fund 5's, 1938	97
Chicago Railways Co. first mortgage 5's, 1927	96
Cincinnati Gas Transportation Co. first mortgage 5's, 1933	95
City of New York revenue 6's, Sept. 1, 1917	102
City of New York 3's, November 1920	96
City of New York 3½'s, 1954	91
City of New York corporate stock 4½'s, May 1, 1957	107
City of New York corporate stock 4½'s, Nov. 1, 1957	107
City of New York 4's, 1958	100
City of New York 4's, 1957	100
City of New York corporate stock 4's, May 1, 1959	100
City of New York corporate stock 4¼'s, Mar. 1, 1964	102
City of New York 4¼'s, Mar. 1, 1960	102
City of New York 4¼'s, September 1960	102
City of New York 4¼'s, Mar. 1, 1962	102
City of New York 4½'s, March 1, 1963	107
Consolidated Gas, Electric Light & Power Co. of Baltimore general 4½'s, 1935	86

Miscellaneous bonds—Continued	%
Columbus & Ninth Avenue Railroad Co. first mortgage 5's, 1993	98
Consolidated Gas Co. of New York convertible debenture 6's, 1920	121
Cuban American Sugar Co. collateral trust 6's, 1918	102
Commonwealth Power, Railway & Light Co. convertible 6's, 1918	102
Dayton Lighting Co. first & refunding mortgage 5's, 1937	96
Detroit United Railways Co. first consolidated 4½'s, 1932	80
Duluth Street Railway Co. first mortgage 5's, 1930	95
Eastern Pennsylvania Railways Co. first mortgage 5's, 1936	79
Eastern Power & Light Corporation convertible 5's, 1918	96
Federal Light & Traction Co. first lien sinking fund 5's, 1942	80
Galveston Electric Co. first mortgage 5's, 1940	90
Georgia Light & Power Railways Co. first lien 5's, 1941	73
Georgia Railway & Electric Co. first consolidated 5's, 1932	100
Great Western Power Co. first sinking fund 5's, 1946	89
Indiana Natural Gas & Oil Co. refunding mortgage 5's, 1936	88
Interborough Metropolitan Co. collateral trust 4½'s, 1956	73
International Mercantile Marine Co. collateral trust 4½'s, 1922	108
King's County Electric Light & Power Co. purchase money 6's, 1997	116
Lake Shore Electric Railway Co. first consolidated 5's, 1923	89
Louisville Railway Co. first consolidated 5's, 1930	102
Lynn & Boston Railroad Co. first mortgage 5's, 1924	98
Laclede Gas Light Co. first mortgage 5's, 1919	101
Michigan United Railways Co. first refunding 5's, 1936, series A	73
Michigan United Railways Co. first refunding 5's, 1936, series B	73
Milwaukee Gas Light Co. first mortgage 4's, 1927	92
Milwaukee Electric Railway & Light consolidated mortgage 5's, 1926	101
Mortgage Bond Co. of New York 4's, 1966, series 2	75
Nassau Electric Railroad Co. first consolidated mortgage 4's 1951	73
New England Navigation Co. three year 5% notes, 1917	99
New Orleans Railway & Light Co. general 4½'s, 1935	84
New York Railways Co. first real estate refunding 4's, 1942	73
Northwestern Elevated Railway Co. first mortgage 5's, 1941	85
New York State Railways first consolidated 4½'s, 1952, series A	83
Pacific Coast Company first mortgage 5's, 1946	96
Pacific Gas & Electric Co. general & refunding 5's 1942, series A	90
Peoples Gas, Light & Coke Co. (Chicago) refunding mortgage 5's, 1947	100
Pocahontas Collieries Co. first sinking fund 5's, 1937	88
Portland Railway, Light & Power Co. first refunding 5's, 1942, series A	74
Public Service Corporation of New Jersey general mortgage 5's, 1959	91
Public Service Corporation of New Jersey perpetual interest-bearing 6% certificates	104
Puget Sound Traction, Light & Power Co. 6's, 1919	99
Portland Railway Co. first & refunding sinking fund, 5's, 1930	90
Rochester, Railway Co. mortgage 5's, 1930	102
St. Louis, Springfield & Peoria Railroad Co. first & refunding 5's, 1939	87
St. Paul City Railway Co. consolidated cable 5's, 1937	101
San Joaquin Light & Power Corporation first & refunding 6's, 1950	102
Seattle Electric Co. consolidated & refunding 5's, 1929	95

Miscellaneous bonds—Continued	%
Seattle Electric Co. first mortgage 5's, 1930	100
Seattle Electric Co. (Seattle Everett) first mortgage 5's, 1939	90
Standard Gas & Electric Co. convertible sinking fund 6's, 1926	100
Springfield Railway & Light Co. first lien sinking fund 5's, 1926	89
Third Avenue Railroad Co. first mortgage 5's, 1937	106
Third Avenue Railroad Co. first & refunding 4's, 1937	81
Third Avenue Railroad Co. adjustment mortgage 5's, 1960	78
Tri City Railway & Light Co. collateral trust first lien 5's, 1923	98
Tri City Railway & Light Co. first refunding 5's, 1930	90
Union Electric Light & Power Co. refunding extension 5's, 1933	92
Utah Light & Power Co. consolidated 4's, 1930	85
Utah Light & Power Co. prior lien 5's, 1930	85
Virginia Railway & Power Co. first & refunding 5's, 1934	87
Washington Railway & Electric Co. consolidated 4's, 1951	82

GROUP 2

	Unit value %
Dominion of Canada 3% sterling bonds or stock, 1938	$336 per £100
Dominion of Canada 3½% sterling bonds or stock, 1909–34	$373 per £100
Dominion of Canada 3½% registered stock, 1930–50	$357 per £100
Dominion of Canada (Canadian Pacific Railway) 3½% land grant bonds or stock, 1938	$369 per £100
Dominion of Canada 3½% bonds, 1925–28	84
Dominion of Canada 3¾% bonds, 1914–19	$452 per £100
Dominion of Canada 4% stock, 1940–60	$403 per £100
Dominion of Canada 4½% bonds, 1920–25	$448 per £100
Dominion of Canada 4½% bonds, 1925–45	89
Canadian Northern Alberta Railway Company 3½% debenture stock guaranteed by Canadian Government, 1960	$338 per £100
Canadian Northern Ontario Railway Company 3½% stock guaranteed by Canadian Government, 1961	$343 per £100
Canadian Northern Railway Company first mortgage 3% debenture stock guaranteed by Canadian Government, 1953	$229 per £100
Canadian Northern Railway Company 3½% debenture stock guaranteed by the Canadian Government, 1958	$343 per £100
Canadian Northern Railway Company 4% debenture stock guaranteed by Canadian Government, 1934	$393 per £100
Canadian Pacific Railway Company 4% perpetual consolidated debenture stock	$397 per £100
Canadian Pacific Railway Company 4% non-cumulative preference stock	$383 per £100
Canadian Pacific Railway Company 6% note certificates, 1924	100
Canadian Pacific Railway Company common stock	177
Grand Trunk Pacific Railway Company 3% first mortgage sterling bonds guaranteed by Canadian Government, 1962	$302 per £100

GROUP 3

	Unit value
Argentine Government 3½% bonds, external, 1889	$399 per £100
Argentine 4% bonds, 1897	$345 per £100
Argentine 4% railway guaranteed recission bonds, 1897–9	$375 per £100
Argentine 4% loan, 1898	$346 per £100
Argentine 4% bonds, 1899	$346 per £100
Argentine 4% bonds, 1900, laws 3378, 3783	$346 per £100
Argentine 4% bonds, 1900, laws 3378, 3885	$346 per £100
Argentine 4%, 1908	$342 per £100
Argentine Government 4½% internal gold loan, 1888	$395 per £100
Argentine Government 4½% sterling conversion loan, 1888–9	$401 per £100
Argentine Government 5% loan, 1884	$451 per £100
Argentine 5% loan, 1886–87	$456 per £100

	Unit value
Argentine Government 5% treasury conversion bonds, 1887	$426 per £100
Argentine Government 5% loan, 1887-8-9 North Central Railway extensions	$440 per £100
Argentine Government 5% railway bonds, 1890	$430 per £100
Argentine 5% Buenos Aires water supply and drainage bonds, 1892	$452 per £100
Argentine Government Port of Buenos Aires 5% debentures	$426 per £100
Argentine Government 5% internal gold loan, 1907	$412 per £100
Argentine Government 5% internal gold loan, 1909	$420 per £100
Argentine Government 5% internal gold loan, 1910	$412 per £100
Chilian Government 4½% loan, 1886	$397 per £100
Chilian Government 4½% loan, 1895	$386 per £100
Chilian Government 4½% Coquimbo Railway bonds	$354 per £100
Chilian Government 4½% gold loan, 1906	$363 per £100
Chilian Government 5% loan, 1896	$411 per £100
Chilian Government 5% loan, 1892	$410 per £100
Chilian Government 5% loan, 1905	$398 per £100
Chilian Government 5% loan, 1909	$397 per £100
Chilian Government 5% loan, 1910	$395 per £100
Chilian Government 5% loan, 1911, first series	$407 per £100
Chilian Government 5% loan, 1911, second series	$395 per £100

EXHIBIT No. 2704-A

[File copy]

$250,000,000 UNITED KINGDOM OF GREAT BRITAIN AND IRELAND TWO-YEAR 5% SECURED LOAN GOLD NOTES, DIRECT OBLIGATIONS OF THE GOVERNMENT

Dated September 1, 1916 — Due September 1, 1918

Interest payable March 1 and September 1; principal and interest payable in United States gold coin, at the office of J. P. Morgan & Co., without deduction for any British taxes, present or future; coupon notes of $1,000, $5,000, and $10,000

Redeemable at the option of the Government, in whole or in part, on thirty (30) days notice, as follows: At 101 and accrued interest on any date prior to September 1, 1917; at 100½ and accrued interest on September 1, 1917, and on any date thereafter prior to maturity.

To be secured by pledge with the Farmers Loan and Trust Company, of New York City, under a pledge agreement executed by the Government, of securities approved by J. P. Morgan & Co., of an aggregate value of at least $300,000,000, calculated on the basis of prevailing market prices, sterling securities being valued in dollars at the prevailing rate of exchange, viz:

	Value
Stocks, bonds, and/or other securities of corporations organized in the United States	$100,000,000
Bonds and/or other obligations of the Government of the Dominion of Canada, either as maker or guarantor, and stocks, bonds, and/or other securities of the Canadian Pacific Railway Company	100,000,000
Bonds and/or other obligations of the several following Governments, either as maker or guarantor, viz, of Argentina, Chile, Norway, Sweden, Denmark, Switzerland, and/or Holland	100,000,000

Pending the arrival and deposit of securities as above, the Government is to deposit temporarily with the trust company at the time of issue of the notes, either approved New York Stock Exchange collateral of aggregate value equal to that of the then undelivered securities and/or cash equal to five-sixths of such value. All such temporary collateral is to be exchanged from time to time in the same relative proportions upon the deposit of the above mentioned securities.

If the pledged securities depreciate in value because of change in market price or in rate of exchange, the Government is to deposit additional securities with the trust company, to the end that the aggregate value of the pledged securities shall equal at least 120% of the principal amount of the notes at the time unpaid and not secured by deposited cash.

The Government is to reserve the right from time to time to sell for cash any of the pledged securities, in which event the proceeds of sale are to be received by the trust company and applied to the retirement of notes by purchase, if obtainable at prices not exceeding the then redemption price, and otherwise by redemption by lot at the redemption price.

The Government is to reserve the right also to make substitutions of securities, but such substitutions are not to vary the relative amounts in value of the above-indicated three several groups of securities at the time held by the trust company.

Valuations of securities are to be approved by J. P. Morgan & Co.

This offering is made subject to verification of the list of collateral, and to the approval of the necessary details by counsel.

We offer the above notes for subscription at 99 and interest, yielding slightly over 5½ per cent.

Subscription books will be opened at the office of J. P. Morgan & Co. at 10 o'clock, a. m., August 23, 1916, and will be closed at 10 o'clock, a. m., August 28, 1916, or earlier, in their discretion.

The right is reserved to reject any and all applications, and also, in any event, to award a smaller amount than applied for.

Amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds, to their order, and the date of payment will be given in the notices of allotment.

Temporary certificates will be delivered pending the engraving of the definitive notes.

J. P. Morgan & Co.; First National Bank, New York City; National City Bank, New York City; Harris, Forbes & Co.; Wm. A. Read & Co.; Brown Brothers & Co.; Lee, Higginson & Co.; Kidder, Peabody & Co.; J. & W. Seligman & Co.; Guaranty Trust Company, New York City; Bankers Trust Company, New York City; Farmers Loan & Trust Company, New York City; Central Trust Company of Illinois, Chicago; Union Trust Company, Pittsburgh.

NEW YORK, *August 22, 1916.*

[File copy—Circulars]

$300,000,000 UNITED KINGDOM OF GREAT BRITAIN AND IRELAND, 5½% SECURED LOAN GOLD NOTES

Dated November 1, 1916 Interest payable May 1 and November 1

$150,000,000 three-year notes due November 1, 1919; $150,000,000 five-year notes due November 1, 1921; direct obligations of the Government

Principal and interest payable in United States gold coin, at the office of J. P. Morgan & Co., or, at the option of the holder, in London in sterling at the fixed rate of $4.86½ to the pound.

Principal and interest payable without deduction for any British taxes, present or future.

Coupon notes of $1,000, $5,000, and $10,000.

Redeemable at the option of the Government, in whole or in part, on thirty (30) days notice, as follows:

	Three-year notes	Five-year notes
From November 1, 1916, to October 31, 1917, inclusive	103 and interest	105 and interest.
" " 1, 1917, " 31, 1918, "	102 and interest	104 and interest.
" " 1, 1918, " 31, 1919, "	101 and interest	103 and interest.
" " 1, 1919, " 31, 1920, "		102 and interest.
" " 1, 1920, " 31, 1921, "		101 and interest.

To be secured by pledge with Guaranty Trust Company of New York, under a pledge agreement executed by the Government, of securities approved by J. P. Morgan & Co., of an aggregate value of not less than $360,000,000, calculated on the basis of then prevailing market prices, sterling securities being valued in dollars at the prevailing rate of exchange, viz:

Group I. Stocks, bonds, and/or other securities of American corporations (including the Canadian Pacific Railway Company) and bonds and/or other obligations (either as maker or guarantor) of the Government of the Dominion of Canada, the Colony of Newfoundland, and/or Provinces of the Dominion of Canada, and/or Canadian municipalities: Aggregate value not less than	$180,000,000
(Of the foregoing there will be somewhat over $100,000,000 in aggregate value of securities of corporations of the United States and of the Canadian Pacific Railway Company.)	
Group II. Bonds and/or other obligations (either as maker or guarantor) of any or all of the several following Governments, to wit: Commonwealth of Australia, Union of South Africa, New Zealand, Argentina, Chile, Cuba, Japan, Egypt, and India, and/or approximately $25,000,000 value in bonds or other obligations of dividend-paying British railway companies: Aggregate value not less than	180,000,000
Total	360,000,000

Pending the arrival and deposit of definitive securities as above, the Government is to deposit temporarily with the Trust Company either approved New York Stock Exchange collateral or cash.

If the pledged securities depreciate in value, the Government is to deposit additional securities to maintain the 20% margin.

The Government is to reserve the right from time to time to sell for cash any of the pledged securities, the proceeds of sale to be applied to the retirement of notes by purchase or by redemption by lot.

Upon the retirement of the three-year notes, a proportionate amount of the collateral may be withdrawn approximately ratably from each class.

The Government also from time to time may make substitutions of securities, but such substitutions are not to vary the then relative amounts in value of the groups. All substitutions, withdrawals, and valuations of securities are to be approved by J. P. Morgan & Co.

This offering is made subject to the approval by our counsel of necessary formalities.

We offer the above notes for subscription as follows: The three-year notes at 99¼ and interest, yielding over 5.75 percent; the five-year notes at 98½ and interest, yielding about 5.85 percent.

Subscription books will be opened at the office of J. P. Morgan & Co. at 10 o'clock a. m., October 31, 1916, and will be closed at 10 o'clock a. m. November 8, 1916, or earlier, in their discretion.

The right is reserved to reject any and all applications, and also, in any event, to award a smaller amount than applied for.

Amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds, to their order, and the date of payment will be given in the notices of allotment.

Temporary certificates will be delivered pending the engraving of the definitive notes.

J. P. Morgan & Co.; First National Bank, New York City; National City Company, New York City; Harris, Forbes & Co.; Brown Brothers & Co.; Wm. A. Read & Co.; J. & W. Seligman & Co; Kidder, Peabody & Co.; Lee, Higginson & Co.; Lazard Frères; Kissel, Kinnicutt & Co.; White, Weld & Co.; Guaranty Trust Company of New York; Bankers Trust Company, New York City; Farmers Loan & Trust Company, New York City; Central Trust Company of Illinois, Chicago; Union Trust Company, Pittsburgh; Continental and Commercial Trust and Savings Bank, Chicago; Marine National Bank, Buffalo; First & Old Detroit National Bank, Detroit.

NEW YORK, *October 30, 1916.*

[File copy—Final proof]

$250,000,000 UNITED KINGDOM OF GREAT BRITAIN AND IRELAND ONE-YEAR AND TWO-YEAR 5½% SECURED LOAN, CONVERTIBLE GOLD NOTES

Dated February 1, 1917 Interest payable February 1 and August 1

$100,000,000 one-year notes due February 1, 1918; $150,000,000 two-year notes due February 1, 1919; principal and interest payable at the office of J. P. Morgan & Co.

Convertible upon notice, at the option of the holder, at any time before maturity, or (if called for earlier redemption) at any time until and including the date of such redemption, into twenty year 5½% Bonds of the United Kingdom of Great Britain and Ireland, payable February 1, 1937, and not subject to prior redemption.

Principal and interest of the notes, and of the bonds into which they may be converted, is to be payable, without deduction for British taxes, present or future, in New York in United States gold coin, or, at the option of the holder, in London in sterling at the fixed rate of $4.86½ to the pound.

Coupon notes in denominations of $1,000, $5,000, and $10,000.

Redeemable at the option of the Government, in whole or in part, on thirty (30) days' notice, as follows:

	One-year notes	Two-year notes
From February 1, 1917, to January 31, 1918	101 and interest	102 and interest.
From February 1, 1918, to January 31, 1919		101 and interest.

The notes are to be secured by pledge with Bankers Trust Company, New York, under a pledge agreement executed by the Government, of securities approved by J. P. Morgan & Co., of an aggregate value of not less than $300,000,000, calculated on the basis of the then prevailing markets, sterling securities being valued in dollars at the prevailing rate of exchange, viz.:

Group I. Stocks, bonds and/or other securities of American municipalities and corporations and of the Canadian Pacific Railway Company, and bonds and/or other obligations (either as maker or guarantor) of the Government of the Dominion of Canada, the Colony of Newfoundland, and/or provinces of the Dominion of Canada, and/or approved Canadian municipalities: Aggregate value not less than	$150,000,000
(Of the foregoing there will be somewhat over $100,000,000 in value in the securities of municipalities and corporations of the United States and of the Canadian Pacific Railway Company.)	
Group II. Bonds and/or other obligations (either as maker or guarantor) of any or all of the several following Governments, to wit: Argentina, Chile, Cuba, Commonwealth of Australia, Egypt, Japan, New Zealand, and Union of South Africa, and/or bonds and/or other obligations of approved railways in Argentina and/or of the Grand Trunk Railway Company of Canada, and/or approximately $25,000,000 value in bonds and/or other obligations of dividend-paying British railway companies: Aggregate value not less than	150,000,000
Total	300,000,000

Pending the arrival and deposit of definitive securities as above, the Government is to deposit temporarily with the Trust Company either approved New York Stock Exchange collateral or cash.

If the pledged securities depreciate in value, the Government is to deposit additional securities to maintain the 20% margin.

The Government is to reserve the right from time to time to sell for cash any of the pledged securities, the proceeds of sale to be applied to the retirement of notes by purchase or by redemption by lot.

Upon the retirement of the one-year notes, or upon reduction of the amount of notes outstanding, through conversion, a proportionate amount of the collateral may be withdrawn approximately ratably from each class.

The Government also from time to time may make substitutions of securities, but such substitutions are not to vary the then relative amounts in value of the groups. All substitutions, withdrawals, and valuations of securities are to be approved by J. P. Morgan & Co.

This offering is made subject to the approval by our Counsel of necessary formalities.

We offer the above notes for subscription as follows: The one-year notes at 99.52 and interest, yielding 6 per cent, the two-year notes at 99.07 and interest, yielding 6 per cent.

Subscription books will be opened at the office of J. P. Morgan & Co., at 10 o'clock a. m., January 24, 1917, and will be closed at 10 o'clock a. m., January 31, 1917, or earlier, in their discretion.

The right is reserved to reject any and all applications, and also, in any event, to award a smaller amount than applied for.

Amounts due on allotments will be payable at the office of J. P. Morgan & Co., in New York funds, to their order, and the date of payment will be given in the notices of allotment.

Temporary certificates will be delivered pending the preparation of the definitive notes.

J. P. Morgan & Co.; First National Bank, New York City; National City Company, New York City; Harris Trust & Savings Bank, Chicago; Brown Brothers & Co.; Wm. A. Read & Co.; J. & W. Seligman & Co.; Kidder, Peabody & Co.; Lee, Higginson & Co.; Lazard Frères; Kissel, Kinnicutt & Co.; White, Weld & Co.; Guaranty Trust Company of New York; Bankers Trust Company, New York City; Farmers Loan & Trust Company, New York City; Central Trust Company of Illinois, Chicago; Halsey, Stuart & Co., Chicago; Continental and Commercial Trust and Savings Bank, Chicago; Marine National Bank, Buffalo; Union Trust Company, Pittsburgh; First & Old Detroit National Bank, Detroit.

NEW YORK, *January 22. 1917.*

EXHIBIT No. 2705

4 AK

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, August 8, 1916.

[Copy of telegram despatched 11 p. m. to Morgan, London]

23860. 20816. We have concluded recommend a 2-year obligation both because of its relation to period for which securities are borrowed and also so that issue price and term of notes will not unduly compete with Anglo-French 5's and American Foreign Securities Company notes. Under this plan it would be well to have dates for return of collateral to original holders modified to, say, October 1, 1918, in accordance with 20734. We feel that $250,000,000 should be amount rather than $300,000,000, and we would suggest the use of, say, $75,000,000 market value of Argentine Government, $25,000,000 Chilian Government, $100,000,000 Canadian Government, and $100,000,000 Americans, divided equally between American dollar securities and securities available for sale. Would suggest that American securities available for sale could be substituted for American dollar securities, if it were necessary to support market to amount in excess of proceeds of the $50,000,000. American salable securities deposited. Under this plan you would at our request withdraw part of American dollar securities and substitute other American securities which would be available for sale, the proceeds of the sale of securities to be used to purchase notes in the market and cancel them, provided notes could be purchased at less than fixed redemption price, which would be, say, 101 during first year and 100½ during second year. As practical matter we should, of course, not sell in such a way as would work hardship on Government; and, if notes had gone to satisfactory premium above issue price without assistance from us, we should sell Americans other than those pledged as collateral rather than disturb American collateral deposited. Value of securities payable in Sterling would be computed at London markets with exchange figured at the rate of the day, and the 20% margin computed upon this basis would be maintained against a decline either in rates of exchange or in market value of securities. In this connection it would be helpful if Canadians mentioned 20654 could be issued in dollar form, as we would hope that if you wished us to do so we might be able to realize on these before maturity of loan. Would suggest that trustee hold cash against securities pending their arrival. You, of course, understand it will be necessary to have all securities in this country.

We have today had confidential talk with First National Bank and National City Bank acquainting them with our proposal, asking each of them to underwrite $25,000,000 of the notes. Subject to approval of their boards, of which we would have no doubt, they have both assented. Counting the $50,000,000 of the Bank of England and our $50,000,000, as arranged, this would provide for $150,000,000. When, therefore, the details are clearly understood between your Government and ourselves, we would endeavor to form a comparatively small syndicate to underwrite the remainder $100,000,000 of the $250,000,000. We would hope this be done promptly and without publicity. By this action we would expect to form a most favorable impression upon publication and secure cooperation of immediate and powerful selling organization.

Thus far we are more than gratified at the prospects of this undertaking, and cannot urge too strongly that matter be expedited as rapidly as possible, in order that issue may be made almost immediately, particularly as we contemplate comparatively easy money for the next four or five weeks, and it is difficult to see beyond that.

For your confidential information, McRoberts, just returned from Russia, is proposing to Russian group, of which we are member, that an offering be immediately made of $50,000,000 or $100,000,000 Russian Government bonds. This would undoubtedly militate against our undertaking somewhat; therefore we would like to get our operation out of the way at earliest possible moment.

In order that we are sure of a perfect understanding regarding terms, we would expect to issue the notes at 99, underwrite them at 98, and receive ½% commission for ourselves. In other words, cost to Government to be 97½. The notes in this country to be free of British income tax.—H. P. Davison.

Morgan.

HPD.

Exhibit No. 2706

4 AK

J. P. Morgan & Co.,
Export Department,
New York, Oct. 27, 1916.

[Copy of telegram despatched 11:30 p. m. to Morgan, London]

29493. 29394. Have simplified collateral question by dividing in two groups, each for $180,000,000. Have arranged for group one to be made up of $80,000,000 Dominion of Canada, Island of Newfoundland, and any Canadian provinces and municipalities included in list mentioned to authorities as being acceptable for conversion plan. Remainder of group one to be American corporations, including Canadian Pacific Railway debenture stock, preference stock, and common stock.

Second group to be, say, $50,000,000 Argentine and Chili, $35,000,000 Australia, $10,000,000 South Africa, $10,000,000 New Zealand, $30,000,000 Japan, $25,000,000 British Railway, first debentures, $10,000,000 Egypt, $10,000,000 India, and small amount Cuba already here.

We expect to utilize among Americans about $50,000,000 Treasury securities supplying balance from American dollar securities. The $37,000,000 Canadian mentioned, 29394, valued at, say, 80, would release $30,000,000 in Canadian Government large pieces now pledged for existing notes. We would plan to utilize this $30,000,000 so released and make up remaining $50,000,000 temporarily out of American dollar securities. As to second group, we have apparently enough Japanese to make up $30,000,000 suggested and approximately enough Egypt, leaving $140,000,000 to be made up temporarily out of stock exchange collateral. We now hold free about $290,000,000 Americans, including Canadian Pacific Railway among American dollar securities, this amount consisting principally, although not entirely, of stock exchange collateral. This will be increased by approximately $40,000,000 when Argentine and Chilean Governments now on hand are permanently pledged under existing agreement, releasing equivalent amount temporary stock exchange collateral. Number of small pieces will require some time in checking Argentine and Chile bonds in to trustee by substitution, but should hope to conclude within week, so there would seem to be ample time before securities required for new operation. You notice we are including South African and India as mentioned, 20394. Your 24767 mentions only Australia and New Zealand. Assume, however, others will be available. It would be helpful if securities to be utilized could be forwarded as promptly as possible rather than sending additional Argentine Railway securities or Grand Trunk debentures at the present time. Appreciate physical difficulties in connection with this, but make suggestion in order to avoid tying up stock exchange collateral unnecessarily, even as temporary expedient. We are hoping to offer publicly on Monday for delivery about the eighth, although it may not be physically possible to close in so short a time.

24750. As A. M. Anderson stated to Governor and Secretary of Treasury, suggestions about clause dealing with British income tax on pledged debentures was not at any time considered necessary by us, but was made to meet objections raised here to including securities peculiarly under British Government influence. Our suggestion would be that some general clause be added to clause 7 in existing pledge agreement, providing that in case of default, obligor will refund income tax as to any of securities pledged.

Forwarded on October 25th, letters to participants along general lines 25072, giving until this morning to reply. Have heard from almost everyone and have had comparatively few declinations. Are cabling you 29491 text of pledge agreement for approval. In order to insert unit prices in pledge letter, important to have complete list of issues of various countries which will be utilized. In view of fact that notes follow phraseology already approved in former issue, we are proceeding with preparation temporaries in order to have ready for signing. Presume you wish Ambassador to sign indenture and letter authorizing us to sell similar to that in 25448 and that you wish Osborne to sign notes. Please cable that letters similar to that set forth 22379, 22441 will be written to Guaranty Trust Co., N. Y., and delivered their London office; also please have Sir Frank Crisp write letter such as is mentioned therein.

MORGAN.

AMA.

EXHIBIT No. 2707

226ad

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, July 28, 1916.

[Copy of telegram received 3 : 05 p. m. from Morgan, London]

20654. Canadian Government are arranging to issue to Imperial Government Canadian dollar bonds to the amount of $107,000,000 in respect of Dominion indebtedness to United Kingdom, to be available in the hands of Imperial Government for the purposes of collateral: $12,000,000 in 3½% bonds 1925–1928 and $95,000,000 in 4½% bonds 1925–1945. Dominion desire to issue bonds of large denominations.

Treasury wish to put them to little trouble as possible. Bearing this in mind, please advise largest denominations suitable and proportions of each denomination. Would large bonds with undertaking to split if necessary be in any way suitable?

MORGAN.

EXHIBIT No. 2708

226ad
4 AK

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, July 29, 1916.

[Copy of telegram despatched 7 : 15 p. m. to Morgan, London]

23561. 20654. Believe that pieces of $1,000,000 would be satisfactory for the purposes of collateral, provided that bonds should recite in text that at the request of holder exchange could be made for pieces of $1,000 denominations. If these are to be utilized for collateral would be advantageous to have legal opinion of Canadian Attorney General to effect that all steps have been taken to make bonds legal and binding obligation of Canadian Government.

MORGAN.

AMA.

EXHIBIT No. 2709

4–AK[1]

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 23, 1916.

[Copy of telegram received 4:03 p. m. from Morgan, London]

26609. Guaranty Trust Co. of N. Y., London, request you communicate following to Guaranty Trust Co. of N. Y.:

"Guaranty Trust Co. of N. Y., London, have received today from the Lords Commissioners of His Majesty's Treasury, £9,000,000. 4½% bonds of the commonwealth of Australia Government, numbers 1/18: 18 bonds at £500,000 each, without coupons (which are to be completed and delivered later), payable to the order of Guaranty Trust Co. of N. Y., to be forwarded by them to their New York City office by first English boat. Will cable name of steamers later."

MORGAN.

EXHIBIT No. 2710

4 AK[1]

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Nov. 24, 1916.

[Copy of telegram received 1:28 p. m. from Morgan, London]

26638. Guaranty Trust Co. of New York, London, request you communicate following to Guaranty Trust Co. of New York:

"Guaranty Trust Co. of New York, London, have received today from the Lords Commissioners of H. M. Treasury £5,000,000 New Zealand Government 4½% debentures 1925/45 (ten debs at £500,000 each) as follows, viz:

"Numbers B 1/4 £2,000,000 issued under the New Zealand Loans Act 1908, etc., and nos. C 1/6 £3,000,000 issued under the New Zealand Public Revenues Amendment Act, etc., payable to order of Guaranty Trust Co. of New York with coupons due June 1st, 1917, and subsequently attached to be transmitted to Guaranty Trust Co. of New York, by them on an English steamer."

MORGAN.

EXHIBIT No. 2711

4 AK[1]

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Dec. 1, 1916.

[Copy of telegram received 1:46 p. m. from Morgan, London]

26858. Guaranty Trust Co. of New York, London, request you communicate the following to Guaranty Trust Co. of N. Y.:

"Guaranty Trust Co. of New York, London, have received today from the Lords Commissioners of H. M. Treasury £6,000,000 Union of South Africa Government 4½% debentures, 1925/45, twelve debentures, £500,000 each, numbers 1 to 12, payable to the order of the Guaranty Trust Co. of New York, duly stamped with coupons, due June 1st, 1917, and subsequently attached to be transmitted to the Guaranty Trust Co. of New York by them on an English steamer."

MORGAN.

EXHIBIT No. 2712

DECEMBER 7, 1916.

THE LORDS COMMISSIONERS OF HIS MAJESTY'S TREASURY,
London, England.

SIRS: Referring to the authority to be given to us by Sir Cecil Spring-Rice by authority of the Treasury to make sales of pledged securities under clause thirteen of the pledge agreement dated September 1, 1916, we undertake that without further instructions from you we will not sell any securities pledged under the said pledge agreement other than the securities which are the absolute property of His Majesty's Government.

Furthermore, we undertake that without further instructions from you we will not sell any dollar bonds of the Dominion of Canada nor Canadian Pacific Railway Company common stock included in said pledge agreement.

Yours very truly,

——— ———.

EXHIBIT No. 2713

$250,000,000 UNITED KINGDOM OF GREAT BRITAIN AND IRELAND TWO-YEAR 5% SECURED LOAN GOLD NOTE SYNDICATE

[Confidential]

BOND DEPARTMENT,
New York, August 15, 1916.

GUARANTY TRUST CO.,
140 Broadway, New York City.

DEAR SIR: The Government of the United Kingdom of Great Britain and Ireland proposes to issue $250,000,000 of its two-year 5% secured loan gold notes, to be dated September 1, 1916, to bear interest at the rate of 5% per annum, payable semi-annually, and to mature September 1, 1918, but, at the option of the Government, to be redeemable, in whole or in part, on 30 days' notice on any day until and including August 31, 1917, at 101 and accrued interest, and on any day thereafter until and including August 31, 1917, at 100½ and accrued interest. Both principal and interest are to be payable in New York, in United States gold coin, without deduction for any British taxes, present or future.

The notes are to be secured equally and ratably by pledge with the Farmers Loan & Trust Company, New York City, of certain bonds, stock, and other securities, pursuant to a pledge agreement to be executed and delivered by the Government to the trust company. The pledged securities, which are to be approved by J. P. Morgan & Co., are to have a value of at least $300,000,000, calculated on the basis of prevailing market prices, sterling securities being valued in dollars based on the prevailing rate of exchange.

The pledged securities are to be as follows:

Group 1.	Stocks, bonds, and other securities of American corporations of the aggregate value of not less than	$100,000,000
Group 2.	Bonds or other obligations of the Government of the Dominion of Canada, either as maker or guarantor, and stocks, bonds, and other securities of the Canadian Pacific Railway Company, of the aggregate value of not less than	100,000,000
Group 3.	Bonds or other obligations of the several following Governments, either as maker or guarantor, to wit, of Argentina, Chile, Norway, Sweden, Switzerland, Denmark, and Holland, of the aggregate value of not less than	100,000,000

Pending the arrival and deposit of a portion of such securities, the Government is to deposit temporarily with the trust company either approved New York Stock Exchange collateral or cash or both, under provisions for withdrawals of such temporary deposits to be contained in the pledge agreement.

The pledge agreement is to provide that if the pledged securities shall depreciate in value because of change in market price or in rate of exchange, so that the 20% margin shall have become impaired, the Government will deposit additional securities with the Trust Company to the end that at all times the Trust Company shall hold securities of a value in New York city equal at least to 120% of the amount of the loan at the time unpaid and not covered by cash deposits.

The pledge agreement is further to provide that from time to time the Government may sell for cash any of the pledged securities, in which event the proceeds of sale shall be received by the Trust Company and applied to the retirement of notes by purchase, if obtainable at or below the redemption price, or otherwise by redemption by lot at such redemption price.

The pledge agreement may also contain provisions, approved by J. P. Morgan & Co. for substitutions of collateral, such substitutions, however, not to vary the relative amounts in value of the three several groups of the collateral at the time held by the Trust Company.

It is proposed to offer these notes publicly in the near future at 99 and accrued interest. We are now forming a syndicate to underwrite the notes at 98 and accured interest, such syndicate to expire October 1, 1916, unless sooner terminated by the syndicate managers.

We have reserved for you, subject to the issue of the notes as planned, a participation of $7,500,000 principal amount of notes in the above syndicate.

Please advise J. P. Morgan & Co., by 10 o'clock a. m., August 18, 1916, whether you desire the participation which has been reserved for you.

Yours truly,

J. P. MORGAN & CO.

FIRST NATIONAL BANK,
New York City.
WM. A. READ & CO.
KIDDER, PEABODY & CO.
BANKERS TRUST COMPANY,
New York City,
CENTRAL TRUST COMPANY OF ILLINOIS,
Chicago.
HARRIS, FORBES & CO.
LEE, HIGGINSON & CO.
GUARANTY TRUST COMPANY,
New York City.
NATIONAL CITY BANK,
New York City.
BROWN BROTHERS & CO.
J. W. SELIGMAN & CO.
FARMERS LOAN & TRUST COMPANY.
UNION TRUST COMPANY,
Pittsburgh.

By J. P. MORGAN & CO.,
Syndicate Managers.

The above participation is not to be re-offered by you in whole or in part. Syndicate members will be advised in due course as to the terms and conditions of sale. In the meantime no offers or sales of notes are to be made until authorized by the syndicate managers, and no advertising or other publicity is to be undertaken, in connection either with the syndicate or with the sale of the notes, until and to the extent authorized by the syndicate managers.

EXHIBIT NO. 2714

NOVEMBER 1, 1916.

The LORDS COMMISSIONERS OF HIS MAJESTY'S TREASURY,
London, England.

SIRS: Referring to the authority to be given to us by Colville Adrian de Rune Barclay by warrant of the Treasury to make sales of pledged securities under clause XIII of the pledge agreement, dated November 1, 1916, we undertake that, without further instructions from you, we will not sell any securities included in group I of the said pledge agreement other than the American securities which are the absolute property of His Majesty's Government.

Yours very truly,

———— ————.

GHG–Dt.

EXHIBIT NO. 2715

3807,
17.

[Copy]

Received with F. L. no. 23/2262

TREASURY CHAMBERS,
8th February 1917.

GENTLEMEN: Under the authority of the letters from this department of the 1st and 3d November last (29039/16 29349/16), a letter was addressed by His

Majesty's Chargé d'Affaires at Washington to Messrs. J. P. Morgan and Company on November 6th, 1916, appointing them to be agents of His Majesty's Government to make sales under clause XIII of the pledge agreement of 1st November of the securities pledged with the Guaranty Trust Company as collateral for the issue of 3- and 5-year notes, on the receipt of an understanding (dated 1st November 1916) that without further instructions from the Treasury, Messrs. J. P. Morgan and Company would not sell any securities included in group 1 of the said pledge agreements other than the American securities which are the absolute property of His Majesty's Government.

This undertaking in the terms in which it was given would not preclude Messrs. J. P. Morgan and Company from selling dollar bonds of the Governments of Australia, New Zealand, and South Africa, although it was not at the time in contemplation to provide for the sale of any securities in group 2.

But to avoid any misapprehension my lords think it well to state that They are under pledge not to dispose in the market of the dollar bonds of the three governments mentioned above, equally with the dollar bonds of the Government of Canada; and They would be obliged if Messrs. J. P. Morgan and Company would give Them an explicit recognition that all securities in group 2 are excluded from the authority for sale quoted above.

I am, gentlemen,
Your obedient servant,

(Sd) M. G. RAMSAY.

Messrs. MORGAN, GRENFELL & Co.,
22 Old Broad Street, E. C.

EXHIBIT NO. 2716

MORGAN, GRENFELL & Co.,
London, E. C., 12th, February 1917.

Messrs. J. P. MORGAN & Co.,
New York:

BRITISH 3 & 5 YEAR NOTES

DEAR SIRS: Referring to our cable no. 30886 and your reply no. 37492, we now enclose for your files copy of letter from Sir Malcolm G. Ramsay dated 8th. inst., contents of which we cabled to you and which you have confirmed.

Yours very truly,

MORGAN, GRENFELL & Co.

EXHIBIT NO. 2717

[Copy]

3327
17

23/1736

TREASURY CHAMBERS,
30th January 1917.

GENTLEMEN: I am directed by the lords commissioners of His Majesty's Treasury to inform you that His Majesty's Ambassador at Washington will be authorised to give directions for the signature on their behalf of a fresh letter, in duplicate addressed to Messrs. J. P. Morgan & Company in the following terms:

"With reference to the pledge agreement, dated 1st September 1916, executed by the Government of the United Kingdom of Great Britain and Ireland to the Bankers' Trust Company, New York, you are hereby appointed the agents of the Government to make sales in your discretion of any and all of the securities pledged under the said pledge agreement; to certify to the Bankers' Trust Company, New York, the amount of the net proceeds of any such sale; and to cause payment of such net proceeds to be made to the said company and thereupon to request and to obtain the release from the said pledge agreement of the securities sold and the delivery thereof by the Bankers' Trust Company, New York, according to your order."

The signature of the said letter will be conditional upon Messrs. Morgan undertaking in writing not to sell wtihout further instructions any securities other than those which are absolute property of His Majesty's Government.

Further, the authority to sell will not extend to the dollar bonds of South Africa, New Zealand, and Australia nor to Canadian Pacific Railway common stock, which my lords are under pledge to the Dominion Governments not to dispose of in the market, and Messrs. Morgan's undertaking should contain an explicit recognition of the exclusion of these from the scope of the authority.

I am, gentlemen,
Your obedient servant,
(Sd) JOHN BRADBURY.

Messrs. MORGAN, GRENFELL & Co.,
22, Old Broad Street, E. C.

EXHIBIT No. 2718

FEBRUARY 1, 1917.

The LORDS COMMISSIONERS OF HIS MAJESTY'S TREASURY,
London, England.

SIRS: Referring to the authority to be given to us by Sir Cecil Spring Rice by warrant of the Treasury to make sales of pledged securities under clause XIII of the pledge agreement, dated February 1, 1917, we undertake that without further instructions from you we will not sell any securities included in group I of the said pledge agreement other than the American securities which are the absolute property of His Majesty's Government, nor without further authority will we sell any of the obligations of any of the following Governments: Union of South Africa, New Zealand, and Australia, nor the stock of the Canadian Pacific Railway Company.

Yours very truly,
——— ———.

EXHIBIT 2719

4–AK

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 1, 1916.

[Copy of telegram despatched 12:00 mid. to Morgan, London]

29745. In order to avoid specifying to Guaranty Trust Company, New York, securities which are comprised in Treasury list, and which we will be authorized to sell, we propose to amend letter in 25448 as follows:

> Delete "Specified in annexed schedule aggregating in value $______ being securities included in group one"

substituting the word "pledged." We, on the other hand, giving Ambassador letter stating that without further instructions we will not sell securities other than those comprised in Treasury list. Please confirm.

MORGAN.

AMA.

EXHIBIT No. 2720

4 AK'

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 3, 1916.

[Copy of telegram received 2:50 p. m. from Morgan, London]

26037, 29745. Treasury confirm.

MORGAN.

EXHIBIT No. 2721

4 AK'

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 4, 1916.

[Copy of telegram received 11:26 a. m. from Morgan, London]

26068, 26037, 29745. Treasury letter confirming now received states substitution word "pledged" approved "on the understanding that Messrs. Morgan undertake in writing not to sell without further instructions any securities deposited in group one other than the American securities which are the absolute property of H. M. Government", [i. e. those] held for British Gov't Treasury account.

MORGAN.

NOTE.—Pencil notation enclosed in brackets.

EXHIBIT No. 2722

NOVEMBER 9, 1916.

GUARANTY TRUST COMPANY,
140 Broadway, New York, N. Y.

DEAR SIRS: We beg to hand you herewith letter signed by Colville Barclay, H. B. M. Charge d'Affaires, appointing this firm agents of the Government to make sales of securities pledged under the letter of pledge dated November 1, and to take other steps in connection therewith; also letters signed by Mr. Barclay for Sir Cecil Spring-Rice, specifically pledging with the Guaranty Trust Company the permanent securities to be pledged under clause I and the temporary securities to be pledged under clause II of said indenture.

Yours very truly,

——— ———.

Enclosures.
AMA/CAD.

EXHIBIT No. 2723

4-AK'

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Nov. 4, 1916.

[Copy of telegram despatched 6:00 p. m. to Morgan, London]

29830. 26068. Believe wise to handle matter by our writing letter to authorities, as follows:

"Referring to the authority to be given to us by Colville Adrian de Rune Barclay by warrant of the Treasury to make sales of pledged securities under clause XIII of the pledge agreement, dated November 1st, 1916, we undertake that we will exercise such authority to make sales of only such securities as shall have been purchased by the Government and shall have been deposited under said pledge agreement."

If qualification is put in letter to us, it would put the Trust Company under [duty] to inquire as to whether securities mentioned were those we were authorized to sell, and we wish to avoid disclosing even to Trust Company that only comparatively small amount of securities are as a practical matter available for sale. Mr. Barclay will be here Monday morning to sign pledge agreement and other documents, so please cable to reach us our opening if this course is satisfactory.
AMA.

MORGAN.

NOTE.—Pencil notation enclosed in brackets.

EXHIBIT 2724

4–AK

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Aug. 17, 1916.

[Copy of telegram despatched 10 : 15 p. m. to Morgan, London]

25199. For E. C. Grenfell. In order to insure success of undertaking, we first secured firm underwriting from largest interests and then advised dealers and banks of additional reservations subject to their acceptance, making aggregate allotted participations about $60,000,000 in excess of issue. Apparently practically all reservations will be accepted, which will result in the necessity of cutting down $60,000,000.

While we have as yet no definite suggestion to make, we would be willing to relieve Bank of England of their underwriting. our 23656, 23863, your 20816, 20947, but we would still want them not only to stand ready to join us in a subscription to the public offering but also to purchase in the market in case of need as per our 23656, 23702, your 20816. This would carry out our program of being and remaining in a very strong position, and thus we believe insuring marked success of the undertaking. The amount of our joint subscription at public offering would, of course, depend upon public subscriptions and the amount of our purchase in the market would, of course, depend upon the market. As before stated, a strong stand at this stage is more necessary and more helpful than any other one element.

While as yet we would hardly care to predict, it is possible the Bank of England would neither be called upon to subscribe or purchase if they were to do no underwriting.

Of course, if they prefer, it will be entirely satisfactory to us for them to remain as underwriters, we treating their interest and our own alike; that is to say, we would each have the same amount of underwriting whatever it may turn out to be, each make the same subscription, and each purchase the same amount of notes in the market.

Please cable us promptly their attitude so that we may act intelligently. We expect to confirm allotments tomorrow.—H. P. DAVISON.

MORGAN.

(“Exhibit No. 2725” appears in text on p. 8651)

EXHIBIT No. 2726

4ac

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, January 11, 1916.

[Copy of telegram received 4 : 12 p. m. from Morgan, London]

12392. Denkbar. Had long conversation with London exchange committee who appear to be unanimously in favor of asking you continue selling of securities, provided they can justify the cost in Parliament. The proposed Government action at present is, that it will buy good-class securities for sterling, and send them to United States, to provide dollars for munitions of war and exchange. Neither they nor we can estimate what the amount of these securities will be—they may amount to anything between £20,000,000 and £200,000,000—and only time can show. It is proposed sell these securities on your side when dollars are required and as market permits. It is perfectly understood such realizations might become difficult either through congestion of sales or through demoralization markets, or any other cause. In such case authorities want to know what amount, including loan already arranged for Bank of England, you and your friends would be prepared lend, and what would be the cost and margin required, and what would be the period for which you would obligate yourselves to make a loan. I presume the loan would be as from you to British Government, and if you took in friends these friends would lend to you and not to British Government. I told committee I did not know how you would view this proposition, but that beyond a certain figure you would necessarily have bring in others to assist you. You might also insert a force majeure or war clause. It was intimated that a favorable proposition upon this subject would make it easier arrange the selling of the securities with you on a satisfactory basis. The London exchange committee feel they should not bind themselves entirely to you for selling in the future, but seemed disposed agree that selling of securities should be through you for say 6 months, which would be period for which bankers of London exchange committee had arranged the exchange loans with the Frank A. Vanderlip committee. I think this should suffice for you. I told them probably you would not entertain loan proposition without the selling proposition.

Again, as regards selling commission, bankers on the committee state that their correspondents in New York City charge ⅛ on bonds and 1/16 on short-time notes, and it will be difficult in Parliament to justify an all round charge of ¼. As a compromise, Deputy-Governor begged me most earnestly put up to you following proposition, that you should charge ⅛ on bonds in list A–1 which you already know of, and say ⅛ on 18 leading railway shares of which you will have list tomorrow. Except for these standard securities you should charge ¼ on all others. This seems to them a reasonable way in which meet London exchange committee.

In my opinion, bonds apart from list A–1 and the above-mentioned shares, will be extremely large in volume and provide bulk of the sales.

For your private information, Sir Edward Holden was not present, but other members are extremely anxious business should continue in your hands, and I understood from them Sir Edward Holden also had been entirely in agreement. They do feel, however, there would be a real difficulty in justifying in Parliament the all-round charge of ¼ for what would be in effect a monopoly of the sale of securities for the Government. Do not imagine this is totally unreasonable argument raised by Sir Edward Holden, as they all consider this concession on a few standard bonds would disarm criticism.—E. C. GRENFELL.

MORGAN.

4–AC

EXHIBIT NO. 2727

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, Jany. 12, 1916.

[Copy of telegram despatched 9 : 40 p. m. to Morgan, London]

13089. 12392. Denkbar for E. C. Grenfell. We are anxious meet views London exchange committee so far as possible and still carry out plan of obtaining for them highest prices consistent with good dealing. Principle upon which we must work is to receive fair compensation which will enable us to give extra effort, time, and thought, and thereby effect material savings and profits for our clients.

From our wide knowledge of the investment situation, we frequently have obtained and can obtain higher prices by outside work than by merely putting a lot of orders in the stock exchange where there may or may not be buying orders, and where in absence of same a substantial offering is certain to depress prices. As a further illustration, many of the large institutions who buy only in round amounts do not send their orders to stock brokers, but have to be called upon and shown the attractiveness of the offering. Proposed arrangement for initial period of say 6 months agreeable to us. However, it would be quite as satisfactory to us to have no time limit fixed, but rather that committee should feel free at any time to cancel after proper notice, the arrangement made with us, provided they deem it in Government's interest to do so, as we would not want them bound for any time beyond the period of satisfactory service.

We note suggestion that we accept a commission of ⅛ on securities in list A–1, and on leading railway shares as described, charging inclusive ¼ on all other securities. ⅛ is commission which an exclusive stock-exchange house would charge for the sale of securities on the stock exchange where the modus operandi is simply to telephone to the exchange to sell the various securities in the ordinary course of business. We cannot believe that the committee appreciate the difference between such a service and that which we have given and would propose to give, and which they should certainly demand if this business is to be handled to their advantage. In fact, we would not in this case wish to assume the responsibility of receiving an ordinary stock-exchange order to sell, as the character of this business and the importance of the negotiation demand more than that from anybody. Moreover, as you suggest, selling arrangements might involve loans from time to time, which cannot be disassociated from selling arrangements.

We propose therefore to committee that we charge ¼ on all securities, and that subject to force majeure or some development making any financial operation in America entirely out of the question, we shall be prepared to advance for ourselves and friends up to at least $250,000,000 on acceptable American securities, with the usual margin on collateral loans here of 20% to be kept good. In case collateral consisted largely of high-grade bonds, margin would be subject to reduction. If loan is likely to be of any considerable size, we believe major part of advances should be on time, and that remainder should be in form of a demand loan that would be automatically reduced by sale of securities from time to time. Such arrangement would best serve Government's interests and demand loan would probably command somewhat lower rate.

As to either demand or time loan the rate of interest, of course, would have to be governed by money markets. For your guidance we would say that if present conditions continue, rate probably would not exceed 4% for time loans. In case loan was of such size as to make it necessary to farm out, we should necessarily expect fair compensation for handling, to be agreed upon at time.

As to duration of loan, quite impossible to give any adequate reply, but we have no question that we could meet Government's requirements on that point when the time came.

You, of course, appreciate that it is quite impossible to state definite terms and conditions in such a situation as now obtains, but you need have no reservation in assuring the committee that we will meet their requirements to the full extent of our ability.

We hope you will feel free to point out to them the experience of the Government with us in these various matters as best demonstrating what we are disposed and have been able to do to meet emergencies as they have arisen.

We trust foregoing will make clear to committee why we do not feel like undertaking the business at less than ¼ for all securities which, if accepted, will be retroactive.

MORGAN.

EXHIBIT No. 2728

4–AC/6a

J. P. MORGAN & Co.
EXPORT DEPARTMENT,
New York, Jan. 13, 1916.

[Copy of telegram despatched 11:35 p. m. to Morgan, London]

13143. 12429. Denkbar for E. C. Grenfell. We are gratified to feel that our position meets your personal approval.

Our specific answers to your inquiries are as follows:

1. The proposed loan would be handled much as the Bank of England loan has been handled, that is to say, up to a point within our own individual capacity it might be handled by this firm alone, or by the Trio, and we would hope, in strict confidence. If it should reach a point beyond the capacity of our firm and the legal limits of the two banks together, then as in the case of the Bank of England loan when it got beyond a certain point we should invite in, confidentially, close institutions like the Bankers Trust Co., Guaranty Trust Co., Chase National Bank, et cetera. If it were to reach an amount approaching $250,000,000 it would be necessary to go further afield and invite participations from friendly institutions, but ones not so close as the group just men-

tioned. In such case fact of loan would, undoubtedly, become public knowledge.

We are wondering on this point whether it might be feasible on our side and on your side as well, for the promissor to be the Bank of England and for a side guarantee of the loan in all its provisions to be executed by the Government and deposited with us, knowledge of this guarantee being known only to inner group. Technically this might do away with Government's borrowing against collateral here.

Answering specifically your question, the loan would be made by us and participated by us as necessity arises, to other institutions who would technically not lend to us but have a participation in the loan direct, as evidenced by participation receipts.

2. As to margins, there would be no difficulty. We assume that as now there would be lodged with us as warehousemen, a large mass of securities from which you might advise us to add to collaterals as needed such additional securities as might be required to keep loan margin good, but except in the case of violent market fluctuation margin would not have to be made good each day. In general, however, it must be kept unimpaired throughout duration of loan.

3. As to time, we had in mind 6 months, the same as the loan to London banks, but 3 or 4 months, or whatever period might be proposed probably could be very readily settled upon.

4. We would expect compensation by way of commission only in case of necessity of participating loan beyond the trio. Our guess as to the amount of commission is that it would not exceed ½% per annum, and that only upon excess of amount carried by trio. Rate might be less dependent somewhat, of course, upon work and responsibility involved.

MORGAN.

EXHIBIT No. 2729

4–A

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, Jan. 14, 1916.

[Copy of telegram received 3 : 57 p. m. from Morgan, London]

12451. Denkbar. 13089. 12429. Had a long interview with Chancellor of the Exchequer yesterday, who was greatly pleased with your offer of loan. and expressed himself in the highest terms of all J. P. Morgan & Co. had done for Government. I am writing fully upon this subject.

Today have submitted 13089 to London exchange committee, who express their thanks to you and agree to your suggestion as regards the ¼' selling commission on securities to be sent you for sale. There are two points which London exchange committee raise for further consideration as regards the loan:

First. Government, apart from bonds which they may buy, may borrow certain American securities from holders here who prefer to lend rather than to sell. Government, therefore, may wish to borrow in United States on these securities as well as on securities mentioned in 12392. It would, therefore, be wish of Government that, while you would be doing your best to sell the bought securities, you would be lending against the borrowed securities which would not be necessarily for sale, but which would be sent to your side. We presume this would not make any difference to loan question. I cannot estimate amount of securities to be lent, as I find most big holders prefer to sell outright.

Second. London exchange committee did not view favorably idea of making Bank of England ostensible borrower, and they are, therefore, considering whether it would be possible create a company which, privately, would have the guarantee of the Government, and which might be worked out somewhat on lines 5572.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2730

[Copy]

JANUARY 17, 1916.

[Personal and confidential]

Rt. Hon. LORD FAIRFAX,
London, England.

DEAR FAIRFAX: Referring to our confidential cable of January 13, we are using more money in our business than ever before, and owing to the immobility of much of our capital are borrowing more from banks, everything considered, than we feel is desirable. We have, therefore, adopted the policy of realizing wherever possible, through the liquidation of readily marketable holdings, where feasible without substantial loss.

With regard to the Pacific Gas & Electric common, we may wait a few days, as evidently something is stirring in that direction, probably by way of the renewal of a dividend policy, and we may experience an advance of several points very shortly. If this does not materialize pretty soon, however, we will liquidate the London office holdings.

With regard to the reduction of capital of the London office we feel that, temporarily, at least, this should be done and that you will see the good business reason for it; considering the quiet that reigns in the London office, and is likely to continue indefinitely, it is only the part of common sense to release the funds from there and employ them here where we are very active in our regular business and likely to remain so. We were glad to see your ready response in cabling us to draw for £10,000, and hope you will continue to liquidate there and send us the funds that we require.

Some of our competitors are sending representatives to London for the purpose of buying blocks of bonds in your market. With the present pressure from the English Government upon London institutions and individuals to liquidate such holdings, we think the occasion opportune to cable you to canvass the situation, especially with institutions, insurance companies, and others, make reports of their security holdings, and from these you may be able to obtain the information as to where such blocks lie. If you locate a good sized block of desirable bonds that we could use, I believe that Sir Edward Holden would assist you, and perhaps exercise a gentle pressure to dislodge what you may want, so that this need of the Commonwealth becomes our opportunity. Ways and means, however, will suggest themselves to you; I only made the suggestion because I know that others are at work upon the idea.

You will see from our sales sheets that the business has speeded up materially in sales, and from present appearances our markets should continue to be good.

I had a nice letter from Howard Levis a few days ago to which I have replied.

Mr. Coffin has been ailing of late, having suffered a severe attack of influenza, but he is better again and attending to business, although not yet entirely recovered.

With best regards, as always,
Sincerely yours,

——— ———.

WPB/G.

EXHIBIT No. 2731

16a
21a

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, May 3, 1916.

[Copy of telegram despatched 9:45 p. m. to Morgan, London]

17963. 16689. On May 1st we entered temporary loan in the name of His Britannic Majesty's Government for $12,000,000, which was increased to $16,500,000 yesterday and to $17,500,000 to-day. Loan and any increases thereof collateraled by securities now and hereafter held by us for British Government account. Please advise us the form of Government obligation you receive. In view of prospective large payments, loan may have to be further increased, and it seems probable we shall give participations to various banks, in which case loan necessarily would be known to officers and directors of those banks. They will expect good fair rate, as indications here point to higher rates before long. We consider 4% to us entirely reasonable, in view of service rendered and large amount involved, and as indicated 13089, we expect additional ½% per annum upon amounts participated. Special deposit account resulting from exchange ·transactions probably will show overdraft to-morrow. Shall we make separate loan for that account or add amount needed to above mentioned loan?

MORGAN.

W. H. P.

EXHIBIT No. 2732

16a
21

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, May 4, 1916.

[Copy of telegram despatched 8 : 45 p. m. to Morgan, London]

17987. 16740. Will make loan to Bank of England up to $50,000,000, as on former occasions repayable out of gold in transit or to be shipped. Probably should participate part of loan, confidentally, therefore, would be glad to have idea as to when shipments may be expected and whether coming from Canada or Europe. Rate of interest will be 4%, subject to change if money market here advances substantially. Confidential, for your information, while New York City bank's statement shows substantantial surplus reserve, this is computed upon the basis of 18% reserve, which is new reserve requirement under Federal Reserve law. In view of generally mixed conditions prevailing, scarcely any of the banks are willing to consider any further loans when their reserves decline to 20% to 22½% of their deposits, because they have always been accustomed to the 25% requirement of the old law.

MORGAN.

EXHIBIT No. 2733

21
21a

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, May 5, 1916.

[Copy of telegram received 1 : 55 p. m. from Morgan, London]

16776. 17987. Many thanks for your cable as regards loan $50,000,000. More than sufficient gold to cover already in Canada; further large amounts already shipped. In view of sufficient cover being already on your side, suggest inadvisability of giving out participations, as we are naturally averse to stating location of gold unnecessarily to other parties, but leave this to your discretion. We note rate of interest and thank you for your information as regards New York banks' surplus reserve.

$300,000 mentioned end 19002 is to be considered part of above loan. Please, therefore, transfer from His Britannic Majesty's Government special loan account which you have opened to Bank of England loan account.

MORGAN.

EXHIBIT No. 2734

16a

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, May 6, 1916.

[Copy of telegram despatched 6 p. m. to Morgan, London]

19058. 16806. We supposed this a new transaction and wished to be prepared to give usual information confidentially to participants when the time came, which we thought might be within a day or two, as our loan already over $24,000,000 and increasing daily. We note your request not to give out participations until we find our figures excessive and will do best we can. We now understand letter August 27th last as cabled 8042 intended as continuing obligation for any and all subsequent loans, which is quite satisfactory.

MORGAN.

HPD.

EXHIBIT No. 2735

4ak
16a

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, May 20, 1916.

[Copy of telegram despatched 5 p. m. to Morgan, London]

19469. Amount of British Treasury loan tonight $45,500,000, against which we hold securities market value approximately $51,000,000, which includes $8,000,000 securities in American Dollar Securities account. We are assuming we are entitled to include securities in American Dollar Securities account in our collateral. Please confirm. Amount of Bank of England loan $24,807,000.

For your information we have today made payment of $10,287,500 to Bethlehem Steel Co., on account of their contract B36-34W.

Please cable us program regarding additional securities and probability of development in both loans. Up to date we have been able to handle by giving only First National Bank and National City Bank participations; but in view of present size, if increases are to continue, it may be necessary for us to go outside. Will appreciate immediate and full information this subject.

MORGAN.

SM—HPD.

EXHIBIT No. 2736

16ae
16.a

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, June 1, 1916.

[Copy of telegram despatched 9 : 15 p. m. to Morgan, London]

19760. Please suggest to Treasury that it endeavor to give us at least one day's notice of any considerable drafts (excepting anticipated weekly payments) and, if convenient, some indication of possible requirements even before that time. For instance, today we make payments of approximately $19,500,000. In view of increasing volume, we are participating outside trio between $15,000,000 and $20,000,000 account no. 2 loan. You will note that it is necessary for us to undertake this step, although loan has not yet reached $100,000,000. Refer to 13143. Situation has materially changed, bank loans having heavily increased, with reserves steadily diminishing.

Refer 18356. No one cause responsible therefor; general business throughout the country has become very much more active in the last six months, requiring constantly increasing supplies of currency and credit, as shown by increasing bank loans. Coupled with these there have been very heavy new issues, not only Government issues, such as Canadian and Argentine, but a large number of re-organizations and re-capitalizations of motor and other stocks boomed by war profits. We do not regard situation as dangerous, and we believe that high-grade American securities, such as you are sending, will continue to find a good market, but authorities here are preaching caution, and low reserves are leading all institutions to be more conservative in amounts of new loans which they are willing to take on.

MORGAN.

TWL/HPD.

EXHIBIT No. 2737

16A/21

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, June 6, 1916.

[Copy of telegram despatched 11 : 20 p. m. to Morgan, London]

19914. 18482. Are entirely in accord and are exceedingly anxious to increase volume of gold transfers, not only for purpose of reducing interest cost to Treasury, but to bring about great readiness on the part of outside institutions here to participate; such readiness now being distinctly less than last July, owing to hardening of money rates. Since we began this new loan, call money rates have steadily advanced from 2% and closed today at 4%. If these higher rates should be maintained, we shall be obliged undoubtedly to increase rates for both no. 1 and no. 2 loans.

For reasons already set forth to you 19760, institutions are showing apathy to participate. As result, we are carrying by far the larger part of aggregate; in fact, to such an extent that if necessity were to increase the amount much beyond present figures we might find it necessary to put the matter in more bankable and definite shape and offering participations beyond circles now covered. You appreciate that up to this point we have given meager information and because of loyalty of our friends have been able thus far to handle matter with practically no publicity.

MORGAN.

HPD.
TWL.

EXHIBIT 2738

4AK/16/21

J. P. MORGAN & Co.,
EXPORT DEPARTMENT,
New York, June 10, 1916.

[Copy of telegram despatched 6 p. m. to Morgan, London]

21104. No. 2 loan stands this morning $99,500,000; collateral gold, $37,500,000; securities, including American dollar securities, market value about $80,000,000; based on your valuations.

Unless there is additional gold available at Ottawa margin will be impaired probably Monday for the reason that payments advised 18445, 18547, 18584, 18609 aggregate $11,000,000 and securities shipped 18545 probably will not reach here until June 17th or thereafter.

No. 1 loan, including yesterday's purchases, $24,600,000; gold available against same, $21,000,000. Orders for purchase of exchange still unexecuted this morning, £1,940,000.

Kindly cable us outline of your plans so that we may be enabled to answer satisfactorily inquiries sure to be put to us by participants. As the loan grows we must widen the group, and the wider the group grows the more definite and specific is the information required. What is the view of authorities regarding issuing a time loan of $100,000,000, 19489?

MORGAN.

DWM.

EXHIBIT No. 2739

16/21
16a

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, June 10, 1916.

[Copy of telegram despatched 6 p. m. to Morgan, London]

21105. 21104. E. C. Grenfell. For your own information the continued increase in the loans which this morning aggregated almost $124,000,000 has concerned us not a little, not because of question as to character of loan or security, but because of lack of definite plan to handle matter if increase is to continue. Thus far we have been able to handle this in very quiet way through our intimate friends, but even so we ourselves are advancing $56,500,000. We feel that some definite plan must be made unless sales of securities and importation of gold take care of future requirements.

MORGAN.

DWM.

EXHIBIT No. 2740

16–AI/21

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, June 14, 1916.

[Copy of telegram despatched 8:15 p. m. to Morgan, London]

21221. 18697. Approximate proceeds of gold still to be received after today's entries as advised you for credit special loan account, $15,500,000; for British Government treasury account, $27,000,000 plus £9,000,000. 18661. Although you have not stated so specifically, we understand that in case it seems desirable we may consider total stock of gold advised at our disposal at Ottawa as security for either loan no. 1 or no. 2. Please confirm.

MORGAN.

TWL.

EXHIBIT No. 2741

66–13

[Copy]

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, May 24, 1916.

[Copy of cable received from Morgan, Grenfell & Co., London]

18191. For J. P. Morgan or H. P. Davison. Strictly confidential and for your own use only. In view of present situation exchange and likely pressure in fall and no further commitments of Government, it is proposed to suggest to authorities for their consideration loan in United States, direct obligation of British Government with collateral consisting mainly of debenture stocks of first-class railroads in United Kingdom and also of British railway companies in colonies and dependencies. You will realize that it would be useless to consider a loan so secured except for a large amount and would like your opinion as to whether such an operation could be effected for, say, $1,000,000,000, not necessarily to be issued at one time. I am sure authorities would not consent to longer period than 15 years and would prefer probably 3 years. Plan presumes exemption from income tax of collateral until redemption of loan.

Please inform us your own opinion without consulting anyone outside whether you consider such collateral would be satisfactory and such amount feasible.—E. C. GRENFELL.

MORGAN.

EXHIBIT NO. 2742

66–13

J. P. MORGAN & CO.,
New York, May 26th, 1916.

[Copy of telegram despatched to Morgan, London]

19627. 18191. We have been much perplexed for some time as to plans of Government for handling exchange situation if and in event that sales of American securities here would not take care of matter, and are therefore relieved to know that your authorities are impressed with seriousness of situation. Are we right in concluding that whole matter is brought up by threatened cessation of supply of American securities under Government offers? If so, our recommendations would be:

First. That renewed and continued effort be made to secure American securities for sale here, even if necessary forcing holders to sell by legislation. Your Government has handled this question so well and sales here have been effected with so little publicity and with, so far, such limited effect on market values, that we feel no other course compares with this in certainty of getting the money, and in economy both of effort and cost. We should like to know your opinion of the additional amount which can be secured. While sales have been large, seems to us there must still be very great amount of American securities held on your side.

Second. That a comprehensive study be made immediately of what South American and other foreign holdings of yours could be sold in this market. We refer to such securities as San Paulo, Chilean nitrates, Cuba Company, etc. In making this suggestion we of course fully appreciate great reluctance of your Government and of individual investors to part with investments which might possibly mean the relinquishment of future trading advantages, and of your Government to urge this course. At the same time we are confident that such procedure is absolutely necessary to enable Government to control exchange situation.

Third. That as far as practicable we quietly plan far in advance for a loan to secure the amount which cannot be supplied by the two courses referred to above.

Of course, if collateral to loan were such as usual here, we should feel that it would not be difficult under present situation to deal with amounts of $250,000,000 at a time. If, however, collaterals must be of your home and colonial railway and other securities, we should have to plan for a great deal of education in order to be sure that we could render you any substantial help. We should also have to carefully consider the effect upon the Anglo-French 5's.

We should favor either J. P. M. or H. P. D. going over to discuss the matter if you thought either could be of real help, though it would be difficult to leave just at this time. However, we consider matter of such extreme importance that their or our convenience would not be allowed to stand in the way.

We must urge that at every opportunity you impress upon Government what J. P. M. endeavored to do while there, namely, that if they are to get, as they must get, what they really need in America, they must not neglect any opportunity, even though such opportunity calls for action from them which they dislike taking as much as the conscription, to which they eventually came.

MORGAN.

EXHIBIT 2743

66–13

[Copy]

J. P. MORGAN & CO.,
CABLE DEPARTMENT.
New York, May 31st, 1916.

[Copy of cable received from Morgan, Grenfell & Co., London]

18348. Denkstein for J. P. M., H. P. D. Private. My 18347 was seen by authorities. The following is my personal cable:

Even though American securities are being deposited in large volume they will not meet requirements in the fall, and governor and I will press all we know to stiffen authorities' attitude in cases like San Paulo. If, as I expect, you consider your public will not buy piecemeal any large quantities debentures and shares, even of the best South American companies, please make this quite clear to me in your reply, and I will tell Chancellor that it is only entire properties such as San Paulo for which you can find buyers, and that only after careful negotiations. Also, please explain, for me to show Chancellor, exactly what you mean in 19627 by educating public sentiment as regards loans secured by British railways. Would you adopt a press campaign or a general canvassing of investment firms, and would this education have to be conducted gradually over a long period?—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2744

66–13

J. P. MORGAN & CO.,
New York, June 1st, 1916.

[Copy of telegram despatched to Morgan, London]

19767. For E. C. Grenfell. 18347. Much gratified to learn of the immediate response and increasing offering of American securities. As to second recommendation, we had in mind purchase of entire companies, or such comprehensive unit propositions as Alabama Junctions, where we had worked out fair plan, but where your authorities deemed difficulties too great. We cannot help feeling that in this particular Alabama matter, as in many others, there must be method of conscription that will sweep away difficulties and create large volume of exchange. As to these entire propositions, again we had in mind various groups that might be organized by men like Converse, Monell, T. N. Vail, and others who are able to deal in large figures if they see opportunity for excellent profit, but who do not invest their money for the sake merely of good interest return. As to debentures and shares of British and British owned foreign companies, even though free from British income tax there would be little or no market here unless some plan were adopted such as is fully set forth in our 17819, whereunder you would purchase these sterlings, to be retired by the companies on condition that we simultaneously purchased equal amount of dollar securities. This method we have pursued very successfully, as you know, for the purpose of taking up large amounts of St. Paul, Pennsylvania, and N. Y., New Haven & Hartford R. Rd. franc bonds. Government issues of South American, or other neutral governments such as you suggest, would, within reasonable amounts, be good for collateral here, just as we assume they will serve for collateral to loan which we have discussed with Ribot during past few months, taking form of American financial company to be organized, the French Government pledging these neutral government securities with such American company. Under this scheme Ribot has issued call for American securities. We will consider matter carefully, but for the moment would rather fear receiving but little encouragement, and if we were to discuss even in confidence with friends, fear might be something leak out which might perhaps somewhat injure British credit. Will give you our views later on this point. What we had in mind as to education was not press campaign so much as personal campaign throughout financial centres, endeavouring to get bankers in various regions into a frame of mind, just as we have been for a long time here, of trying to devise some remedy for existing exchange situation so that American trade may be maintained, and of letting these bankers work around to the proposal of trying to persuade Treasury to consider some sort of collateral loan, thus having proposal come from America rather than from England. Such campaign, even if successful, would take several months to consummate into anything definite.

MORGAN.

EXHIBIT No. 2745

66-13

J. P. MORGAN & CO.,
EXPORT DEPARTMENT,
New York, June 8, 1916.

[Copy of telegram despatched 9 : 30 p. m. to Morgan, London]

19992. For E. C. Grenfell. 18516. Answering numerically:

1. Two days ago French Treasury representatives here advised us deposit of neutral Government bonds had been very satisfactory and they would therefore be ready in few days to take up the matter with us for definite action. When they do we will, subject to terms and conditions being satisfactory, then endeavor to organize an American corporation under laws of whichever State most satisfactory, directors perhaps ten or twelve in number, and officers of such corporation to be representatives of banks and banking houses. Capital of corporation paid in to be from $10,000,000 to $25,000,000, dependent upon amount we conclude to raise. Modus operandi then to be corporation make loan to French Government for period of, say, three years on bonds neutral Governments, with proper margin. Bonds to be deposited in this country with power of corporation to rehypothecate. Corporation would simultaneously issue its debentures in, say, units of $1,000 to an amount necessary, together with its capital, to provide the money to lend the French Government; the difference between the interest paid by the French Government to the corporation and the cost to the corporation in borrowing its money would go to the stockholders of the corporation as dividends. Debentures to mature contemporaneously with French Government note. As corporation, in view of capital paid in, would probably find it unnecessary to deposit total amount of collateral given by French Government, it would, therefore, have in its box remainder unpledged and note of French Government. Therefore, corporation debentures will not definitely set out French Government guaranty.

2. We see no special advantage for similar joint Anglo-French arrangement; in fact, on whole, think it would be disadvantageous.

3. Our hope is that sales of securities and shipment of gold will be sufficient to take care of situation; at least, until proposed French negotiations are out of way, which should be within three weeks—though time required concluding French negotiations seem interminable. Our particular reasons for this are that any other loan such as British Government could furnish would, we fear, militate against French negotiations whereas conclusion French business should not militate against British negotiations. We believe wisest plan for British Government would be to furnish some strong obligor, preferably Bank of England, which would issue a time loan, preferably 1 year, of, say, $100,000,000, secured by American securities and if found absolute necessary a percentage of neutral government's, with power on our part to substitute or to sell collateral, prepaying loan is whole or in part upon satisfactory basis to be determined. If this could be accomplished it should find a ready market. Our endeavor would be to issue participating receipts and get them back in the country banks, thus clearing out New York and enabling us to assist by temporary demand loans, as at present. We fully understand that large amount American securities are loaned, not sold, and upon these a time loan could readily be negotiated, but we feel that a movement in this direction for an amount less than $100,000,000 might be a mistake from British Government's point of view. Of course, if you feel differently we will gladly be governed accordingly.

4. We have not definite form and details American corporation, although our lawyers have advised us that same can be promptly organized.

5. Various issues of following Governments: Denmark, Norway, Sweden, Holland, Switzerland, Spain, Uruguay, Brazil, Argentine, Quebec, Egypt, shares of Suez Canal. Argentine to form, say, 25% of total.—J. P. MORGAN—H. P. DAVISON.

MORGAN.

Exhibit No. 2746

4 AK

J. P. Morgan & Co.,
Export Department,
New York, Aug. 16, 1916.

[Copy of telegram despatched 9 : 00 p. m. to Morgan, London]

25120. For E. C. Grenfell. While we do not yet want to report, we ourselves have no doubt of success of underwriting. We were notified last night that advertisement offering exchequer bonds was to appear in all morning papers. This gave us a little concern fearing it would chill our underdertaking. The great importance to the British Government of having our underwriting promptly completed made it seem to us our duty to submit the matter to the Ambassador through Captain Gaunt. The Ambassador at once authorized Captain Gaunt to request the newspapers not to release the advertisement for a few days. It was too late to do this, and advertisement appeared, we believe, without harm. We mention this that you may understand if you learn of it through other channels. Our minds for months have continually been on the problem of financing the requirements of the Allies. In anticipation of present undertaking being successful and out of the way, we find ourselves again studying the situation, especially because of the pressure upon us from the French Government for another operation and the pressure for Russian financing as brought to the Russian group by the National City Bank. We think it would be important if possible to secure an approximate estimate of the amount of money which will be required in this country by the Allies during, say, the next six months, and the six months succeeding. With this information we at least can more intelligently consider the matter.—H. P. Davison.

Morgan.

HPD.

Exhibit No. 2747

4–AK

J. P. Morgan & Co.,
Export Department,
New York, Aug. 23, 1916.

[Copy of telegram received 2 : 30 p. m. from Morgan, London]

22281. For H. P. Davison. Have discussed 25120 with Chancellor of the Exchequer. Although he knows his requirements and to a certain extent those of the Allies, the amount required for supporting exchange is such a large unknown quantity that it is difficult to forecast requirements.

Refer to our cable 22221. It is quite probable British Government may want another loan in October, which makes me the more pleased to think you may come over shortly.—E. C. Grenfell.

Morgan.

Exhibit No. 2748

Lee, Higginson & Co.,
70 Federal St., Boston, U. S. A., September 3, 1915.

ITALIAN LOAN

To the Italian Ambassador,
Beverly Farms, Mass.

Your Excellency: Referring to Mr. Higginson's conference with you last week, and our talk on Friday last and today with Mr. Ceccato, with whom you asked us to confer, we beg to say that it would give our firm much pleasure to bring out a loan in this country on behalf of your Government.

We have given this subject considerable thought, with special reference to the fact that our financial institutions and individuals have not been accustomed to investments in the securities of other countries, and also with a view to meeting in the best possible way the precise financial conditions which characterize the present moment in this country.

We suggest a 1-year note carrying interest at 6 percent, to be sold probably at par, certainly not less than 99¾; to be free from all tax by your Government; interest to be payable at six months and one year; principal and interest to be payable in this country.

Such a note by itself in these times, and in view of the lack of experience in this country in foreign investments, would not, in our judgment, be salable to a substantial amount; but it seems to us that it can be given a conversion privilege which would bring about a successful issue.

We suggest, accordingly, that the one-year note should give the purchasers the alternative of receiving payment or converting into a precisely similar second note, also running for one year, at the same rate of interest, this second note, at its maturity, to give the holder the option of payment or conversion into a ten-year security carrying interest at 5½ percent, interest and principal of this last security to be payable in this country and Italy.

In our opinion it would be wise, under present conditions, to make this first public issue $25,000,000. We hope that the issue would be so well received that if your Government desired subsequent issues these could be placed also.

In the case of a recent Government loan, where we acted as fiscal agents for the Government, we performed our services for a commission based on the securities sold. We prefer this arrangement, because we think that it makes success more certain for various reasons, some of which we have outlined to Mr. Ceccato. If, however, your Government would prefer to have a part of the loan underwritten—say half—we would be glad to arrange this.

If the loan is to be one-half underwritten, we should expect as compensation a commission of 1½ percent based upon the first-year notes sold, a commission of ½ percent upon the second-year notes taken by the holders of the first-year notes, and a commission of 1½ percent upon the ten-year notes taken by the holders of the second-year notes, with the same rate of commission for the sale of such of the two subsequent maturities as were not taken in exchange by the holders of the existing securities and might be sold by us.

The above commissions would cover the total cost except certain minor expenses such as printing, engraving, certification, counsel fees, etc., in regard to which we can give Your Excellency a close estimate.

We think it can probably be arranged that the noteholders should declare their option as to payment or conversion 30 days before the maturity of the notes.

We are ready to act promptly if Your Excellency should desire us to do so, and to settle immediately the minor details, in regard to which we think there is not likely to arise any basis for difference of opinion.

Very truly yours,

(Signed.) LEE, HIGGINSON & Co.

EXHIBIT No. 2749

(Letterhead) REGIA AMBASCIATA D'ITALIA,
Beverly Farms, Mass., Sept. 14, 1915.

Messrs. LEE, HIGGINSON & Co.,
44 State Street, Boston, Mass.

GENTLEMEN: I have communicated to my Government the suggestions made by you regarding the placing of a loan in this country, and I have been advised by it that it approves the plan as outlined in your letter of September 3rd and in the conferences we had, and authorizes you to act as its fiscal agent to take such steps as are necessary to carry through the transaction along the lines as outlined in your letter and conferences above mentioned: and also to act as its fiscal agent in regard to the payment of the principal and interest on the notes and to hold on deposit, for the account of the Italian Government, the proceeds of such notes and disburse the same as may be arranged.

We can arrange the details of the formal agreement at our mutual convenience.

Believe, me gentlemen,
Yours very truly,

(Signed.) V. MACCHI DI CELLERE,
Royal Italian Ambassador.

EXHIBIT No. 2750

LEE, HIGGINSON & CO.,
70 Federal St., Boston, U. S. A., Oct. 9, 1915.

ITALIAN CONTRACT

Agreement between Count V. Macchi di Cellere, Royal Italian Ambassador to the United States of America, acting in the name and on behalf of the Royal Italian Ministry of the Treasury by special authorization, and Messrs. Lee, Higginson & Company, of Boston, Massachusetts, New York City, New York, and Chicago, Illinois.

1. Lee, Higginson & Company are to offer for sale twenty-five million (25,000,000) dollars par value of notes of the Royal Italian Ministry of Treasury. These notes are to be substantially in the form hereto annexed and marked "Exhibit A", and the Royal Italian Ministry of the Treasury agrees to execute said notes and to comply with their provisions. The text of all the definitive notes and bonds shall be printed thereon in Italian and English, but the legal intent of said instruments shall be determined by the English text thereof.

It is understood that the ten-year bonds referred to in said notes may be registered in Italy and that the Royal Italian Ministry of the Treasury shall make provision therefor.

Provision may be made for temporary notes to be issued in anticipation of the definitive notes and to be exchanged therefor. The temporary notes shall be substantially in the form hereto annexed and marked "Exhibit B", but without provision for registering the same and without coupons, the interest to be payable upon presentation of the notes at either one of the principal offices of Lee, Higginson & Company mentioned therein.

Both the definitive notes and temporary notes shall be signed for the Royal Italian Ministry of the Treasury by said Royal Ambassador, or in the event of his absence, by the Chargé d'Affaires or such other official as may be designated by the Royal Italian Ministry of the Treasury, they shall bear the seal of the Royal Italian Embassy at Washington, and shall be countersigned by Lee, Higginson & Company.

2. None of the twelve million five hundred thousand (12,500,000) dollars of said notes which are not underwritten shall be sold so as to yield the Royal Italian Government a smaller amount than par and accrued interest, less the commission of one and one-half (1½) percent specified herein, nor shall they be sold to the public at less than par and accrued interest unless a lower price is approved by the Ministry of the Treasury.

All expenses in connection with the printing, engraving, or lithographing, and execution of any of the notes contemplated, including the certification and registration thereof, and all expenses incidential to their preparation, shall be paid by the Royal Italian Ministry of the Treasury which shall also pay the expenses incidential to the transfer of funds to any of the offices of Lee, Higginson & Company for the purpose of meeting the interest or principal of said notes and all cost and expense incidential to the preparation for or exercise of the conversion privileges.

It is estimated that these expenses to be paid by the Royal Italian Ministry of the Treasury will be approximately ten thousand (10,000) dollars. But the Royal Italian Government shall, if so requested by Lee, Higginson & Company, furnish and deliver to Lee, Higginson & Company, free of expense to them, the one-year notes of the second series and the ten-year bonds referred to in exhibit A, sufficient in number and denominations to meet the requirements of conversion and sale as provided in said notes. The text of said notes and bonds shall conform to the provisions referred to in exhibit A, and the mechanical execution of said notes and bonds shall conform to the standard bonds issues of the Royal Italian Government. It is understood that these options, if exercised by Lee, Higginson & Company, shall be so exercised by written notice to the Royal Italian Embassy at Washington on or before April 15, 1916, as to the second series of one-year notes, and on or before April 15, 1917, as to the ten-year bonds. Lee, Higginson & Company shall bear all expenses in connection with the advertising and sale of said notes.

After the time limit for the exercise of any conversion privilege has expired, said Lee, Higginson & Company shall within seven days thereafter notify the Royal Italian Embassy at Washington of the number and denominations of the new notes, or bonds, as the case may be, to be issued in exchange for the old notes.

A preliminary certificate that the notes have been authorized and have been or will be executed in accordance with Italian law so as to constitute a valid obligation of the Royal Italian Ministry of the Treasury, will be furnished by said Royal Ambassador and a further certificate to the same effect from the proper official in Rome of the Royal Italian Government will be duly furnished as soon thereafter as it can be obtained.

3. The compensation of said Lee, Higginson & Company for their services in this connection shall be a commission of one and one-half (1½) percent upon the par value of all the first series of one-year notes sold; and an additional commission of one-half (½) of one (1) percent upon the par value of so many of the second series of one-year notes as may be taken in exchange by the holders of the first series one-year notes; and an additional commission of one and one-half (1½) percent upon the par value of so many of the ten-year bonds as may be taken in exchange by the holders of the second series one-year notes; with the same rates of commission as above stated, viz., one-half (½) percent and one and one-half (1½) percent respectively upon par value, for the sale of such of the second series of one-year notes and such of the ten-year bonds as may not be taken in exchange by the holders of prior notes; said Lee, Higginson & Company being hereby given the exclusive right at their option to offer for sale such of the second series of one-year notes and of the ten-year bonds as are not so taken. This exclusive right shall continue for the period of thirty (30) days after the date of maturity of the first series of one-year notes and for the same period after the date of maturity of the second of one-year notes.

4. The Royal Italian Ministry of the Treasury agrees that it will use the proceeds of the first series of notes hereby contemplated in payment for purchases (heretofore made or hereafter to be made) of merchandise and commodities of every kind in markets of the United States, and, pending the application of the said funds, such proceeds, less commissions and expenses, shall be credited on the books of Lee, Higginson & Company to the credit of said Royal Ambassador for the account of the Royal Italian Government and the interest allowed thereon at the rate of two (2) percent per annum. When and as needed by the Royal Italian Government for the purchase of or payment for merchandise and commodities as above, Lee, Higginson & Company shall to the extent of the funds on deposit with them as aforesaid, make transfers therefrom to such bank, trust company, or other depository in the United States as may be designated by said Royal Ambassador. Such transfers shall be made by them when and as instructed in writing so to do by said Royal Ambassador or by such person as he may designate in writing.

5. The provisions of this agreement shall be applicable to said firm of Lee, Higginson & Company as the same may now or hereafter be constituted; and said firm agrees to use its best efforts to accomplish the sale of said notes upon the conditions stated, and daily to advise said Royal Ambassador, or such other person as may be designated by him in writing, of the amounts of the proceeds of said notes, less commissions and expenses as aforesaid, placed to his credit for the account of the Royal Italian Government as above. Information concerning the proceeds of the sale of the second series of one-year notes and of the sale of the ten-year bonds shall be given to said Royal Ambassador in the same manner.

6. It is understood that the sale of twelve million five hundred' thousand (12,500,000) dollars of said notes is to be underwritten to net ninety-eight and one-half (98½) percent thereof, i. e., par less the above-mentiond commission of one and one-half (1½) percent, to the Royal Italian Government by Lee, Higginson & Company, or by a syndicate to be formed by them, of which syndicate said firm may be members and managers.

The public offering of said notes shall be made on October 15th, 1915, with the proviso that Lee, Higginson & Company, acting solely in the interest of the success of the loan, may, if financial conditions in the American market make it wise or necessary, anticipate or postpone this date by a period not to exceed ten (10) days prior or subsequent thereto. But the twelve million five hundred thousand (12,500,000) dollars in notes underwritten as aforesaid will be taken up on said October 15th in any event and the proceeds thereof then placed to the credit of the Royal Italian Government as above.

The offering of said notes, unless they are sold earlier, shall continue for sixty (60) days from October 15, 1915, and thereafter until terminated by ten (10) days' written notice from said Royal Ambassador to Lee, Higginson & Company, or from Lee, Higginson & Company to said Royal Ambassador. All notices hereunder shall be given in writing and mailed either to Lee, Higginson & Company, 43 Exchange Place, New York City, or to the Royal Italian Embassy at Washington, D. C.

It is understood that Lee, Higginson & Company if they so desire may associate with themselves in this undertaking other banking firms or banks or trust companies on such terms as they may approve.

It is further understood and agreed that this contract supersedes all that has heretofore transpired and constitutes the entire agreement between the parties.

In witness whereof said Count V. Macchi di Cellere, Royal Italian Ambassador at Washington, acting on behalf of the Royal Italian Ministry of the Treasury under special authorization as above, has hereunto signed his name and caused the seal of the Royal Italian Embassy at Washington to be affixed, and said Lee, Higginson & Company, by F. L. Higginson, Jr., a partner, has hereunto signed its firm name and affixed its seal this ninth day of October 1915.

[Seal, Royal Italian Embassy.]

(Sd.) MACCHI DI CELLERE,
Royal Italian Ambassador.
(Sd.) LEE, HIGGINSON & CO.

EXHIBIT "A"

No.__________ $__________

KINGDOM OF ITALY—ROYAL MINISTRY OF THE TREASURY ONE-YEAR CONVERTIBLE SIX PER CENT SPECIAL TREASURY GOLD NOTE

For value received, The Royal Ministry of the Treasury promises to pay the bearer hereof, or, in case of registration, to the registered holder hereof _______________Dollars (denominations to be $1,000, $500, and $100) in gold coin of the United States of America of the present standard of weight and fineness one (1) year from date, viz: on October 15th, 1916, and to pay interest thereon, from the date hereof in like gold coin until the principal of this note is paid, at the rate of six (6) per cent per annum, semiannually, on the fifteenth days of April and October. Such interest will be paid only upon the presentation and surrender of the annexed interest coupons as they severally become due and payable.

Both the principal and interest of this note are payable at the option of the holder at either of the offices of Lee, Higginson & Company (as the said firm may be now or hereafter constituted) in Boston, Massachusetts, or in the Borough of Manhattan in the city of New York, State of New York, or in Chicago, Illinois, all in the United States of America, and shall be paid and the promises herein contained kept as well in time of war as in peace, without deduction for any taxes or impositions now or hereafter to be established or levied by or within the Kingdom of Italy in connection with or against the holder hereof, or in connection with or against this note or the principal or income or conversion privilege thereof, and irrespective of the nationality of the holder.

This note is one of an authorized issue of six per cent special treasury gold notes of the Royal Ministry of the Treasury, aggregating twenty-five million (25,000,000) dollars in principal amount, and all of like tenor and date, and all issued or to be issued pursuant to and in conformity with law.

The holder shall have the right to convert this note into another convertible note of the said Royal Ministry of the Treasury of the same principal amount, bearing interest at the rate of six (6) per cent per annum, payable semiannually, dated October 15th, 1916, and maturing one (1) year from its date, and otherwise of the same form and tenor except as herein specifically provided, by surrendering this note at one of the said offices of Lee, Higginson & Company on or after October 15th, 1916, and receiving in exchange therefor the new note.

The conversion privilege may be exercised only if this note be first presented at either of said offices of Lee, Higginson & Company not earlier than ninety (90) days and not later than sixty (60) days before its maturity, for the purpose of being stamped with the following notice:

"The holder of this note has irrevocably exercised the conversion privilege therein granted, and is entitled to receive in cash only the interest due or to become due thereon, and a new note for the same principal amount as therein provided."

The actual exchange of this note for the new note shall be made only at the office where it is so stamped.

The convertible provision of such one-year note of the second series given in exchange as above shall read substantially as follows:

"The holder shall have the right to convert this note into a bond of the said Royal Ministry of the Treasury of the same principal amount, bearing interest at the rate of five and one-half (5½) percent per annum, payable semiannually, dated October 15th, 1917, and maturing ten (10) years from its date, and otherwise of the same form and tenor except as herein specifically provided, but containing no conversion privilege, by surrendering this note at one of said offices of Lee, Higginson & Company on or after October 15th, 1917, and receiving in exchange therefor the new bond. This conversion privilege may be exercised only if this note be first presented at either of said offices of Lee, Higginson & Company not earlier than ninety (90) days and not later than sixty (60) days before its maturity, for the purpose of being stamped with the following notice: 'The holder of this note has irrevocably exercised the conversion privilege therein granted and is entitled to receive in cash only the interest due or to become due thereon and a new ten-year bond for the same principal amount as therein provided'.

"The actual exchange of this note for the new ten-year bond shall be made only at the office where it is so stamped. The said ten-year bond shall be payable, principal and interest, in gold coin of the United States ot America, of the present standard of weight and fineness at either of the said offices of Lee, Higginson & Company, or. at the option of any holder, at such branches of the Royal Treasury as the Royal Ministry of the Treasury may indicate, in gold coin of the Kingdom of Italy of the present standard of weight and fineness at the fixed rate of exchange of 5.18¼ lire of Italian money for each dollar."

At least ten (10) days before any instalment of interest on the notes of this issue shall become due, the Royal Ministry of the Treasury shall deposit with said Lee, Higginson & Company a sufficient sum to pay the same in full and, within ten (10) days before the maturity of the said notes, shall deposit a sum sufficient to pay at such maturity the principal and interest of all of said notes which have not been presented for conversion as above provided.

The Royal Ministry of the Treasury shall in due course deposit with Lee. Higginson & Company the new notes or bonds requisite for exchange as herein provided, and shall also, at the option of any holder of the second series of one-year notes, make provision for the issue of the ten-year bonds in exchange therefor in denominations of ten thousand (10,000) dollars and fifty thousand (50,000) dollars, and registered as to principal and interest, or coupon in form registered as to principal, or coupon in form unregistered, but otherwise of the same tenor.

This note shall pass by delivery unless registered on the books of the Guaranty Trust Company of New York, registrar, such registration being noted hereon. After such registration no transfer hereof shall be valid unless made on said books by the registered owner in person or by his duly authorized attorney and similarly noted hereon; but the same may be discharged from registration by being in like manner transferred to bearer, and thereupon transferability by delivery shall be restored, but this note may again from time to time be registered or transferred to bearer as before. Such registration shall not, however, affect the negotiability of the coupons, which shall continue to be transferable by delivery merely. This note shall not be valid until the same shall have been duly authenticated by counter-signature of Lee, Higginson & Company, and the certification form hereon signed by the Guaranty Trust Company of New York, , Registrar.

The legal intent of this note shall be determined by the English text hereof.

The Royal Ministry of the Treasury certifies and declares that this note has been issued in due and strict compliance with the constitution and laws of the Kingdom of Italy.

In witness whereof the Royal Ministry of the Treasury has caused this note to be signed by its duly authorized representative, the Royal Italian Ambassador to the United States of America, the seal of the Royal Italian Embassy at Washington has been affixed hereto and this instrument countersigned by Lee, Higginson & Company, this fifteenth day of October 1915.

[SEAL] (Signed) MACCHI DI CELLERE,
Royal Italian Ambassador to the United States of America.

Countersigned by
LEE, HIGGINSON & CO.

[Coupon]

(Denomination $30,, $15, $3)

On the ------ day of ---------------- 191--, the Royal Italian Ministry of the Treasury will pay to the bearer, at either of the offices of Lee, Higginson & Company in Boston, Massachusetts, New York City, New York, or Chicago, Illinois, United States of America, ---------------- dollars in gold coin of the United States of America, being six (6) months' interest then due on six percent gold note date ---------------- 19--,

No----------

No----------

(The coupon to bear the engraved or lithographed signature of said Royal Ambassador in form similar to that upon the note.)

[Coupon]

(On back)

No----------

KINGDOM OF ITALY

ROYAL MINISTRY OF THE TREASURY SIX-PERCENT CONVERTIBLE GOLD NOTE $---------

Principal payable ----------------

Interest payable April 15th, ----------, and October 15th, ----------.

Principal and interest payable at the offices of Lee, Higginson & Company, Boston, Massachusetts, New York City, New York, Chicago, Illinois, United States of America.

[Certification form]

Registered:

---------- TRUST COMPANY OF ----------,

By ----------------------------------, *Registrar.*

The temporary notes may be printed. The text will be like that of the definitive notes except that they will be printed only in the English language and will have no coupons and no provision for registration. There will be added a paragraph substantially as follows:

"This note is a temporary note without coupons. The Royal Ministry of the Treasury shall as promptly as possible prepare engraved coupon notes in denominations of one thousand (1,000) dollars, five hundred (500) dollars, and one hundred (100) dollars, substantially in the form of this note, with provisions for registration of principal, and shall deliver to the bearer in exchange for this note one of said engraved coupon notes of the same principal amount with coupons for the unpaid interest attached, upon surrender for cancellation of this temporary note at either of the said offices of Lee, Higginson & Company.

If the exchange is to be made in Boston or Chicago, the bearer must give notice of his intention to present this temporary note for exchange at least ------ days in advance. This note shall not be valid until the same shall have been duly authenticated by countersignature of Lee, Higginson & Company, and the certification form hereon signed by the Guaranty Trust Company of New York, registrar."

EXHIBIT No. 2751

LEE, HIGGINSON & CO.,
70 Federal Street, Boston, U. S. A., November 14, 1916.

To the ROYAL ITALIAN AMBASSADOR,
Washinton, D. C.

YOUR EXCELLENCY: In our letter to you of November 11th we reported that of the $25,000,000 Italian Government one-year 6 percent notes, due October 15, 1917, there was still to be distributed $4,604,200 notes.

We have now to inform you, in accordance with our telegram of this day, that we have completed the sale by taking over the unsold balance, $4,604,200 notes, for our own account at par less ½ percent commission plus accrued interest for one month, i. e., a total sum of $4,604,200.

On receipt of the definitive notes duly executed the above amount and the proceeds of $2,586,300 notes sold by us, less commission, will be placed at your disposal. We shall also credit your Government with interest at the rate of two percent per annum on the net proceeds of our prior sales from the dates on which these proceeds were received and from tomorrow on the proceeds of the bonds bought by us as above.

We expect to send you a provisional statement tomorrow.

Yours faithfully,

——— ———.

EXHIBIT NO. 2752

[From the files of J. & W. Seligman & Co.]

DECEMBER 27, 1916.

DRAFT

We hereby offer and recommend to you for investment, participation certificates issued by the Central Trust Co. of New York, as depositary, in a loan made by us to the French Government, secured by St. Louis & San Francisco 5-percent general lien bond certificates of deposit, with a margin of 20 percent, which margin is to be kept good. The loan matures October 16, 1917, and bears interest at the rate of 6 percent per annum, payable April 16, 1917, and October 16, 1917.

The loan was made for the purpose of permitting the French Government, in connection with its efforts to control the exchange situation, to deal with the St. Louis & San Francisco 5-percent general lien bonds of the French series, and is for a maximum amount of $13,800,000. The actual amount will probably be less than this maximum amount and will depend on the amount of such French series bonds as the French Government may acquire. In any event, the value of the pledged collateral is at all times to be maintained at not less than 20 percent in excess of the face amount of the amount loaned.

The greater part of the participation certificates in above loan have been withdrawn for investment and the amount that we are in a position to offer you is, threfore, limited. Will you be good enough to let us know your wishes in the matter with as little delay as possible.

EXHIBIT NO. 2753

KUHN, LOEB & CO.,
William and Pine Streets, New York, November 17, 1916.

[Confidential]

SIX-PERCENT THREE-YEAR GOLD BONDS OF THE CITIES OF BORDEAUX, LYONS, AND MARSEILLES

DEAR SIRS: We beg to advise you that, subject to the necessary official action and the approval of counsel, we have completed negotiations for the issue in this country of $20,000,000 six-percent three-year gold bonds, due November 1, 1919, of the city of Bordeaux, $20,000,000 similar bonds of the city of Lyons, and $20,000,000 similar bonds of the city of Marseilles. In connection with the purchase and sale of the above bonds, we are forming a syndicate which is to purchase at 96½ percent and accrued interest from November 1, 1916, $12,000,000 face value of the said bonds of each city, with the privilege of purchasing at the same price, in lots of $1,000,000 or a multiple thereof, on or at any time before February 20, 1917, all or part of the remaining $8,000,000 additional face value of bonds of each city.

We have been advised that these loans are to be made to provide for expenditures for the alleviation of suffering caused by the war and for other municipal purposes.

The principal and interest of the bonds are to be payable, without deduction for any French governmental or municipal taxes or other French taxes, in

New York, in United States gold coin of or equal to the present standard of weight and fineness, or, at the option of the holder, in France in francs, at the fixed rate of francs, 5.60 per dollar, under regulations to be stipulated in the bonds.

It has been stipulated that the Government of the French Republic is to undertake, if necessary, to permit the cities of Bordeaux, Lyons, and Marseilles, or any of them, to pay the interest or principal amount of the loan in gold in the city of New York, to furnish them and each of them with gold in the amount needed, and authorize its exportation for said purpose.

As our negotiations have been conducted in part by cable, we reserve the right to modify, in our discretion, the terms of the bonds and of the purchase, except as to the interest rate and maturity of the bonds, the purchase price, and the fixed rate of exchange.

The bonds are to remain syndicated under our management for a period of three months from November 20, 1916, unless the syndicate be sooner terminated by us. We are to be managers of and may participate in the syndicate, and as managers are to have full control of the affairs of the syndicate, with power, in our discretion, to exercise the privilege of purchasing said additional $8,000,000 bonds of each city in whole or in part, or to leave the same unexercised, and to sell the bonds and to repurchase and resell bonds in our absolute discretion.

We shall make no charge for our services in managing the syndicate, as we are being compensated otherwise.

We beg to call to your attention that, in addition to the very attractive yield of the bonds, there is also the possibility of a very substantial profit in exchange, in view of the option to collect the principal and interest of the bonds at the rate of francs, 5.60 per dollar, while the normal rate of exchange before the war was about francs 5.18 per dollar.

Kindly advise us promptly whether and to what extent you desire to participate in this syndicate, and we shall do our best to meet your wishes. All participations will be on the basis of a syndicate for $36,000,000 bonds, with a proportionate amount in the option.

Yours very truly,

——— ———,

EXHIBIT NO. 2754

FRENCH MUNICIPAL LOANS

$20,000,000	$20,000,000	$20,000,000
CITY OF BORDEAUX	CITY OF LYONS	CITY OF MARSEILLES

SIX PER CENT THREE-YEAR GOLD BONDS DUE NOVEMBER 1, 1919, INTEREST PAYABLE MAY 1 AND NOVEMBER 1

Principal and interest payable without deduction for any French governmental or municipal taxes or other French taxes.

Principal and interest payable in New York in United States gold coin, or at the option of the holder (to be exercised as to principal thirty days before the date of maturity) in France in francs at the fixed rate of francs 5.60 per dollar.

Coupon bearer bonds in denominations of $1,000, $500, and $100 each.

The Government of the French Republic is to undertake to furnish and permit the exportation of gold, so far as necessary, to permit the cities to pay the interest or principal amount of the loans in gold in the city of New York.

We are informed that these loans are the only external loans of the above-mentioned cities and are to be made to provide for expenditures for the alleviation of suffering caused by the war, and for other municipal purposes.

We are advised that—

Bordeaux, one of the three leading French seaports, has, according to the last enumeration, a population of 261,678 and a funded debt of Fcs. 48,500,000 (approximately $9,000,000).

Lyons, next to Paris the leading trade centre of France, has according to the last enumeration, a population of 523,796 and a funded debt of Fcs. 97,000,000 (approximately $18,000,000).

Marseilles, the foremost seaport of France, has, according to the last enumeration, a population of 550,619 and a funded debt of Fcs. 122,800,000 (approximately $23,000,000).

The undersigned will receive subscriptions for the above bonds at 98 percent and accrued interest, at which price the bonds yield about 6.75 percent on the investment.

Particular attention is called to the small per capita debt of these cities, to the attractive yield of the bonds, and to the possibility of a very substantial profit in exchange, in view of the option to collect the principal and interest of the bonds at the rate of francs 5.60 per dollar. Thus, if at the maturity of the bonds the rate of exchange should be fcs. 5.18 (the normal rate before the war) the principal sum payable in France would equal a redemption price in dollars of about 108 percent.

Subscriptions will be apportioned among the three issues of bonds, and allotments will be made on the basis of equal amounts of each issue, insofar as feasible.

The subscription will be closed at three o'clock p. m. on Tuesday, November 28, 1916, or earlier, the right being reserved to reject any applications and to award a smaller amount than applied for. The undersigned reserve the right to close the subscription at any time without notice.

A first payment of $50 per $1,000 bond subscribed for must accompany all subscriptions. The balance of the amount due on bonds allotted upon subscriptions will be payable in New York funds, on December 6, 1916, at the office of the undersigned, against delivery of temporary bonds exchangeable for engraved bonds when prepared.

If not allotment be made, the first payment will be repaid in full, and if only a portion of the amount applied for be allotted, the balance of the first payment will be applied towards the amount due on December 6, 1916. No interest will be allowed on such first payment. If any further balance remains, such balance will be repaid. Failure to pay the second installment, when due, will render the previous payment liable to forfeiture.

All allotments will be made subject to the necessary official action to complete the transaction and to the opinion of counsel as to legality.

KUHN, LOEB & CO.

NEW YORK, *November 23, 1916.*

EXHIBIT No. 2755

City of Bordeaux in account with Kuhn, Loeb & Co., N. Y.

1916		*Dr.*	1916		*Cr.*
Dec. 8.	J. P. Morgan & Co.	$1,665,000.00	Dec. 6.	Proceeds of sale of $12,000,000 6% Bonds @ 96+int. from Dec. 1	$11,530,000.00
11.	,, ,,	5,000,000.00	18.	Interest @ 3%	7,225.83
18.	,, ,,	4,872,225.83			
		11,537,225.83			11,537,225.83

EXHIBIT No. 2756

City of Marseilles in account with Kuhn, Loeb & Co., N. Y.

1916		*Dr.*	1916		*Cr.*
Dec. 8.	J. P. Morgan & Co.	$1,665,000.00	Dec. 6.	Proceeds of sale of $12,000,000.00 6% bonds at 96 + int. from Dec. 1	$11,530,000.00
11.	ditto	5,000,000.00	18.	Interest @ 3%	7,225.83
18.	ditto	4,872,225.83			
		11,537,225.83			$11,537,225.83

EXHIBIT No. 2757

City of Lyons in account with Kuhn, Loeb & Co., N. Y.

1916		Dr.	1916		Cr.
Dec. 8.	J. P. Morgan & Co.	$1,665,000.00	Dec. 6.	Proceeds of sale of $12,000,000.00 6% bonds @ 96 + int. from Dec. 1st	$11,530,000.00
11.	" "	5,000,000.00	18.	Interest at 3%	7,225.83
18.	" "	4,872,225.83			
		$11,537,225.83			$11,537,225.83

EXHIBIT No. 2758

[Carbon copy]

NOVEMBER 29TH, 1916.

[Official]

JACQUES DE NEUFLIZE, Esq.,
Room 1219, 2 Rector Street, New York.

DEAR SIR: We beg to inform you that the public response to the offering of the Bordeaux-Lyons-Marseilles three-year bonds has not been such as to enable us, on behalf of the syndicate which we have formed, to call at the present time the $24,000,000 bonds on which the syndicate has an option.

A number of causes have combined to militate against the full success of this issue.

(1) The market for foreign short-term bonds and notes has become greatly overcrowded. The demand for such securities is naturally limited, as they are bought principally by banks, trust companies, and other financial institutions and do not so much appeal, generally speaking, to the individual investors at large, as such investors desire in the main long term securities. Moreover, the placing recently of $300,000,000 *secured* notes of the British Government and the arrangement of a *secured* eighteen months $50,000,000 acceptance credit for French houses and institutions, not only absorbed a very large part of the funds available for short term European investments but also increased the difficulty of placing unsecured short term loans.

It was in realization of this situation that we ventured to urge so strongly in the present instance the issue of 15- or 20-year bonds, of the wide popular success of which we felt entirely certain, instead of 3-year bonds.

(2) You will recall that we were exceedingly desirous to proceed with the public issue within the first few days after the date of the Presidential election—i. e., after November 7th—and that we made free to point out to you repeatedly the necessity of promptest possible action, as *every day's delay* was detrimental to the success of the issue. As we had foreseen, the psychological elements of the general situation, as well as the condition of the money market, have since become somewhat unfavorable. Furthermore, it so happened that our issue coincided with the public offering of the Russian Government notes, the Chinese Government notes, the city of Sao Paulo notes, all of which, though not very large in themselves, tend to increase the existing impression as to the profusion of foreign short-term offerings.

(3) A postponement of the public issue after our syndicate had once been formed would not have been possible, and, moreover, we were and still are convinced that, notwithstanding the circumstances above enumerated, the entire $60,000,000 of our offering would have been covered by public subscriptions if it were not for the official announcement last Friday that the French and British Governments had authorized the placing in America of Treasury notes to an unstated amount. This was followed the day after by the publication of a notice addressed to the banks by our Federal Reserve Council, advising them to place limitations upon the amount of their commitments in the way of such short-term foreign borrowing as was not of a self-liquidating character. And this notice again was followed yesterday by the enclosed formal and official warning on the part of the Federal Reserve Board, addressed not only to the banks but to investors generally and coming on the very day which was announced as the closing day of the public offering of the three-cities loan and on which, in consequence of certain steps which we had taken, we had every reason to expect a great many subscriptions to have come in.

(4) To sum up: Notwithstanding the congested condition of the market for foreign short-term securities and the unpropitiousness of the moment, we are confident that we would have succeeded in placing the $60,000,000 3-year bonds under our issue if it had not been for the official announcement of the contemplated unlimited placing of French and English Treasury notes in America, and for the resulting public warning by the Federal Reserve Board.

On the first day of our offering, Thursday, the subscriptions, while not comparable in size to those for the Paris issue, were fully up to our expectations. On the following 3 days under the influence of the Treasury notes announcement very distinct hesitation set in and the market for short-term securities declined under heavy sales, Paris bonds going to 97⅝, notwithstanding our supporting purchases. Yesterday morning, on the closing day of our offering and the day on which our own and our syndicate's efforts had been concentrated and were to have borne fruit, the Reserve Board's warning appeared. Its effect was seriously disturbing upon investors, corporate and individual, in foreign short-term securities, a heavy and precipitate selling movement set in, causing Paris bonds to fall temporarily to 96⅜ and the demand for the three cities bonds was cut off suddenly and absolutely.

We perfectly appreciate the circumstances which made it impracticable for the French authorities concerned to adopt our suggestion for a long-term loan or to enable us to proceed more promptly with the public offer of the 3-year loan, and you will please understand that we are writing this letter, not in any spirit of criticism but solely as an explanation of the result.

You are entirely at liberty, if you so desire, to forward a copy of this letter to the French authorities concerned, and we beg to remain,

Very truly yours,

—— ——.

Encl.

EXHIBIT No. 2759

[Carbon copy]

OCT. 9TH, 1917.

SIX PERCENT 3-YEAR GOLD BONDS OF THE CITIES OF BORDEAUX, LYONS, AND MARSEILLES

JACQUES DE NEUFLIZE, Esq.,
Room 1219, 2 Rector Street, New York.

DEAR SIR: The syndicate for the above bonds expires by limitation on October 31st, and under its terms cannot be further extended. As you are aware, approximately $17,000,000 bonds remain unsold in the hands of the syndicate. With its termination these bonds will be freed from the control of the syndicate managers, and syndicate members will be free to dispose of them at their discretion.

In the present state of the investment market, unless some substantial and definite buying power is provided to aid in the absorption of such offerings as may be made, there is danger that, with the termination of the syndicate, a precipitate and very serious decline may set in which naturally would have the tendency to affect materially other French securities in the United States. On the other hand, if a certain capacity and willingness is demonstrated to absorb a reasonable amount of such bonds as will come for sale, it may be assumed, to judge from experience, that this would result in reassuring intending sellers and easing selling pressure and would have a strong psychological effect in preventing sales at inordinately low prices which otherwise might be reached.

We should judge that to accomplish this purpose there should be available a buying power up to a total of $5,000,000 bonds, although we do not think that it will be necessary to purchase such an amount of bonds.

In view of these circumstances, we feel that we ought to submit to the consideration of the French authorities the suggestion that we be authorized upon the termination of the syndicate to support the market by purchasing in our discretion at not exceeding 90 percent all or any part of $5,000,000 bonds and to resell the same at such prices and at such time as we judge advisable; provided, that we are not to make sales below cost unless expressly authorized to do so.

Although it is naturally our policy at this time to avoid the locking up of our funds, we would be willing, in order to demonstrate our desire to be of service, to carry for the duration of six months, at the accruing rate of interest, with margin of 10 percent to be kept good, one-third of such bonds as may be acquired.

We shall be obliged to you if you will be good enough to bring this suggestion to the notice of the proper French authorities, and we beg to remain,

Faithfully yours,

L. ——— ———.

Exhibit No. 2760

[Rubber stamp: Official]

AGENCE FINANCIERE DU GOVERNMENT FRANCAIS AUX ETATS-UNIS,
New York, 2 Rector Street, September 9th, 1918.

Messrs. KUHN, LOEB & Co.,
New York City.

GENTLEMEN: I acknowledge receipt of your letter of September 9th in regard to the purchase by your firm, for account of the French Government, of city of Paris 6 percent gold bonds and cities of Bordeaux, Lyons, and Marseilles 6 percent bonds, with which I am in accord.

I am requesting the Federal Reserve bank to pay you tomorrow, September 10th, the sum of two million dollars ($2,000,000), which kindly credit to the French Government account under advice to me.

Kindly advise me daily of all purchases or sales effected under this agreement which will be charged or credited by you to the French Government account.

Yours very truly,

(Signed) J. FREDERICK BLOCH.

Exhibit No. 2761

French Government in account with Kuhn, Loeb & Co., N. Y., to Oct. 22, 1919

		Dr.			Cr.
1918 Sept. 10	23 M City of Bordeaux 6%, at 96½	$22,195.00	*1918* Sept. 10	Check Federal Reserve Bank.	$2,000,000.00
	25 M do. 96¾	24,187.50			
	28 M do. 96⅞	27,125.00			
	18 M do. 97	17,460.00			
	⅛% commission	117.50			
	Interest accrued 4 mth. 9 da	2,021.00			
	31 M City of Lyons 6%, at 96½	29,915.00			
	31 M do. 96¾	29,992.50			
	25 M do. 96⅞	24,218.75			
	34 M do. 97	32,980.00			
	⅛% commission	151.25			
	Interest accrued 4 mth. 9 da	2,601.50			
	35 M City of Marseilles 6%, at 96½	33,775.00			
	28 M do. 96¾	27,090.00			
	30 M do. 96⅞	29,062.50			
	42 M do. 97	40,740.00			
	⅛% commission	168.75			
	Interest accrued 4 mth. 9 da	2,902.50			
	10 M City of Paris 6%, at 94¼	9,425.00			
	27 M do. 94⅜	25,481.25			
	52 M do. 94½	49,140.00			
	⅛% commission	111.25			
	Interest accrued 4 mth. 25 da	2,150.83			
11	13 M City of Bordeaux 6%, at 96⅝	12,561.25			
	⅛% commission	16.25			
	Interest accrued 4 mth. 10 da	281.67			
	3 M City of Lyons 6%, at 96½	2,895.00			
	8 M do. 96⅝	7,730.00			
	⅛% commission	13.75			
	Interest accrued 4 mth. 10 da	238.33			
	12 M City of Marseilles 6%, at 96⅝	11,595.00			
	⅛% commission	15.00			
	Interest accrued 4 mth. 10 da	260.00			
	16 M City of Paris 6%, at 94⅜	15,100.00			
	197 M do. 94½	186,165.00			
	⅛% commission	266.25			
	Interest accrued 4 mth. 26 da	5,183.00			

French Government in account with Kuhn, Loeb & Co., N. Y., to Oct. 22, 1919—Continued

		Dr.			Cr.
1918					
Sept. 13	25 M City of Bordeaux 6%, at 96½	$24,125.00			
	⅛% commission	31.25			
	Interest accrued 4 mth. 12 da	550.00			
	10 M City of Paris 6%, at 94¼	9,425.00			
	10 M do. 94⅜	9,437.50			
	⅛% commission	25.00			
	Interest accrued 4 mth. 28 da	493.33			
Sept. 16	38 M City of Bordeaux 6%, at 96¼	36,575.00			
	⅛% commission	47.50			
	Interest accrued 4 mth. 15 da	855.00			
	57 M City of Lyons 6%, at 96¼	54,862.50			
	42 M do 96½	40,530.00			
	⅛% commission	123.75			
	Interest accrued 4 mth. 15 da	2,227.50			
	47 M City of Marseilles 6%, at 96¼	45,237.50			
	25 M do 96⅝	24,156.25			
	⅛% commission	90.00			
	Interest accrued 4 mth. 15 da	1,620.00			
	10 M City of Paris 6%, at 94	9,400.00			
	9 M do 94⅛	8,471.25			
	30 M do 94¼	28,275.00			
16	5 M City of Paris 6%, at 94⅜	4,718.75			
	25 M do 94½	23,625.00			
	⅛% commission	98.75			
	Interest accrued 5 mth. 1 da	1,988.17			
17	29 M City of Bordeaux 6%, at 97	28,130.00			
	⅛% commission	36.25			
	Interest accrued 4 mth. 16 da	657.33			
	98 M City of Lyons 6%, at 97	95,060.00			
	⅛% commission	122.50			
	Interest accrued 4 mth. 16 da	2,221.33			
	37 M City of Marseilles 6%. at 97	35,890.00			
	⅛% commission	46.25			
	Interest accrued 4 mth. 16 da	838.67			
	5 M City of Paris 6%, at 94½	4,725.00			
	98 M do 94¾	92,855.00			
	202 M do 94⅞	191,647.50			
	⅛% commission	381.25			
	Interest accrued 5 mth. 2 da	7,726.67			
18	90 M City of Paris 6%, at 94%	85,387.50			
	34 M do 95	32,300.00			
	⅛% commission	155.00			
	Interest accrued 5 mth. 3 da	3,162.00	*1918*		
19	79 M City of Bordeaux, at 97½	77,025.00	Sept. 19	Check (Fed. Reserve).	$2,000,000.00
	⅛% commission	98.75			
	Interest accrued 4 mth. 18 da	1,817.00			
	10 M City of Lyons, at 97⅜	9,737.50			
	152 M do 97½	148,200.00			
	⅛% commission	202.50			
	Interest accrued 4 mth. 18 da	3,726.00			
	10 M City of Marseilles, at 97⅜	9,737.50			
	102 M do 97½	99,450.00			
	⅛% commission	140.00			
	Interest accrued 4 mth. 18 da	2,576.00			
	2 M City of Paris 6%, at 95	1,900.00			
	⅛% commission	2.50			
	Interest accrued 5 mth. 4 da	51.33			
Sept. 20	31 M City of Bordeaux 6%, at 97½	30,225.00			
	⅛% commission	38.75			
	Interest accrued 4 mth. 19 da	718.16			
	48 M City of Lyons 6%, a t 97½	46,800.00			
	⅛% commission	60.00			
	Interest accrued 4 mth. 19 da	1,112.00			
	58 M City of Marseilles 6% at 97½	56,550.00			
	⅛% commission	72.50			
	Interest accrued 4 mth. 19 da	1,343.67			
23	8 M City of Lyons 6%, at 97½	7,800.00			
	⅛% commission	10.00			
	Interest accrued 4 mth. 22 da	189.33			
	1 M City of Marseilles 6%, at 97½	975.00			
	⅛% commission	1.25			
	Interest accrued 4 mth. 22 da	23.67			
24	75 M City of Bordeaux 6%, at 98 1/16	73,546.88			
	⅛% commission	93.75			
	Interest accrued 4 mth. 23 da	1,787.50			
	162 M City of Lyons 6%, at 98	158,760.00			
	⅛% commission	202.50			
	Interest accrued 4 mth. 23 da	3,861.00			
	27 M City of Marseilles, at 98 1/16	26,476.87			
	⅛% commission	33.75			
	Interest accrued 4 mth. 23 da	643.50			

French Government in account with Kuhn, Loeb & Co., N. Y., to Oct. 22, 1919—Continued

		Dr.			Cr.
1918 Sept. 25	51 M City of Bordeaux, at 98	$49,980.00			
	⅛% commission	63.75			
	Interest accrued 4 mth. 24 da	1,224.00			
	156 M City of Lyons, at 98	152,880.00			
	⅛% commission	195.00			
	Interest accrued 4 mth. 24 da	3,744.00			
	78 M City of Marseilles, at 98	76,440.00			
	⅛% commission	97.50			
	Interest accrued 4 mth. 24 da	1,872.00			
	145 M City of Paris 6%, at 96¼	139,562.50			
	5M do 96⅜	4,818.75			
	9 M do 96½	8,685.00			
	⅛% commission	198.75			
	Interest accrued 5 mth. 10 da	4,240.00			
26	3 M City of Bordeaux 6%, at 98¼	2,947.50			
	27M do 98½	26,595.00			
	⅛% commission	37.50			
	Interest accrued 4 mth. 25 da	725.00			
	94 M City of Lyons 6%, at 98½	92,590.00			
	⅛% commission	117.50			
	Interest accrued 4 mth. 25 da	2,271.67			
	81 M City of Marseilles, at 98½	79,785.00			
	⅛% commission	101.25			
	Interest accrued 4 mth. 25 da	1,957.50			
	6 M City of Paris 6%, at 96¾	5,805.00			
	37 M do 96⅞	35,843.75			
	55 M do 97	53,350.00			
	⅛% commission	122.50			
	Interest accrued 5 mth. 11 da	2,629.67			
27	32 M City of Paris 6%, at 97	31,040.00			
	10 M do. 97⅛	9,712.50			
	11 M do. 97¼	10,697.50			
	13 M do. 97⅜	12,658.75			
	128 M do. 97½	124,800.00			
	⅛% commission	242.50			
	Interest accrued 5 mth. 12 da	5,238.00			
30	2 M City of Bordeaux 6%, at 98½	1,970.00	*1918* Sept. 30	Check Cent. Un. Tr. Co.	$1,000,000.00
	23 M do. 98¾	22,712.50			
	558 M do. 99	552,420.00	Sept. 30	Check Farmers L. & T. Co.	1,000,000.00
	⅛% commission	728.75			
	Interest accrued 4 mth. 29 da	14,502.66			
	6 M City of Lyons 6%, at 98½	5,910.00			
	17 M do. 98¾	16,787.50			
	646 M do. 99	639,540.00			
	⅛% commission	836.25			
	Interest accrued 4 mth. 29 da	16,613.50			
	6 M City of Marseilles 6%, at 98½	5,910.00			
	18 M do. 98¾	17,775.00			
	635 M do. 99	628,650.00			
	⅛% commission	823.75			
	Interest accrued 4 mth. 29 da	16,340.34			
	25 M City of Paris 6%, at 97⅛	24,281.25			
	284 M do. 97½	276,900.00			
	⅛% commission	386.25			
	Interest accrued 5 mth. 15 da	8,497.50			
Oct. 1	41 M City of Bordeaux 6%, at 99	40,590.00	Oct. 1	Check FRB	1,000,000.00
	⅛% commission	51.25	2	3 M City of Bordeaux 6%, at 98¼ com.	2,943.75
	Interest accrued 5 mth	1,025.00			
	33 M City of Lyons, at 99	32,670.00		Int. accrued 5 mth. 1 da.	75.50
	⅛% commission	41.25			
	Interest accrued 5 mth	825.00			
	33 M City of Marseilles, at 99	32,670.00		3 M City of Marseilles 6% at 98¼ com.	2,943.75
	⅛% commission	41.25			
	Interest accrued 5 mth	825.00			
2	138 M City of Bordeaux 6%, at 99	136,620.00		Int. accrued 5 mth. 1 da.	75.50
	⅛% commission	172.50			
	Interest accrued 5 mth. 1 da	3,473.00			
	134 M City of Lyons 6%, at 99	132,660.00			
	⅛% commission	167.50			
	Interest accrued 5 mth. 1 da	3,372.33			
	150 M City of Marseilles 6%, at 99	148,500.00			
	⅛% commission	187.50			
	Interest accrued 5 mth. 1 da	3,775.00			
	73 M City of Paris 6%, at 97½	71,175.00			
	⅛% commission	91.25			
	Interest accrued 5 mth. 17 da	2,031.83		66	
Oct. 4	20 M City of Bordeaux 6%, 98¾	19,750.00			
	⅛% commission	25.00			
	Interest accrued 5 mth. 3 da	510.00			
	15 M City of Lyons 6%, at 98¾	14,812.50			
	⅛% commission	18.75			
	Interest accrued 5 mth. 3 da	382.50			

French Government in account with Kuhn, Loeb & Co., N. Y., to Oct. 22, 1919—Continued

		Dr.			Cr.
1918					
Oct. 4	25 M City of Marseilles 6%, at 98¾	$24,687.50			
	⅛% commission	31.25			
	Interest accrued 5 mth. 3 da	637.50			
	1 M City of Paris 6%, at 97	970.00			
	⅛% commission	1.25			
	Interest accrued 5 mth. 19 da	28.17			
7	25 M City of Lyons 6%, at 98¾	24,687.50			
	⅛% commission	31.25			
	Interest accrued 5 mth. 6 da	650.00			
	25 M City of Marseilles 6%, at 98¾	24,687.50			
	⅛% commission	31.25			
	Interest accrued 5 mth. 6 da	650.00			
8	93 M City of Bordeaux 6%, at 99	92,070.00			
	⅛% commission	116.25			
	Interest accrued 5 mth. 7 da	2,433.47			
	136 M City of Lyons 6%, at 99	134,640.00			
	⅛% commission	170.00			
	Interest accrued 5 mth. 7 da	3,558.69			
	128 M City of Marseilles 6%, at 99	126,720.00			
	⅛% commission	160.00			
	Interest accrued 5 mth. 7 da	3,349.34			
9	16 M City of Bordeaux 6%, at 99	15,840.00			
	⅛% commission	20.00			
	Interest accrued 5 mth. 8 da	421.33			
	18 M City of Lyons 6%, at 98⅞	17,797.50			
	81 M do. 99	80,190.00			
	⅛% commission	123.75			
	Interest accrued 5 mth. 8 da	2,607.00			
	27 M City of Marseilles 6%, at 98⅞	26,696.25			
	62 M do. 99	61,380.00			
	⅛% commission	111.25			
	Interest accrued 5 mth. 8 da	2,343.67	*1918*		
	160 M City of Paris 6%, at 97½	156,000.00	Oct. 10	Check FRB	$2,000,000.00
	⅛% commission	200.00	15	Coupons 2,028 M City of Paris 6%.	60,840.00
	Interest accrued 5 mth. 24 da	4,640.00			
10	13 M City of Paris 6%, at 97⅜	12,658.75			
	⅛% commission	16.25		Check FRB	1,000,000.00
	Interest accrued 5 mth. 25 da	379.17			
11	113 M City of Paris 6%, at 97½	110,175.00			
	⅛% commission	141.25			
	Interest accrued 5 mth. 26 da	3,314.67			
14	84 M City of Bordeaux 6%, at 99	83,160.00			
	⅛% commission	105.00			
	Interest accrued 5 mth. 13 da	2,282.00			
	39 M City of Lyons 6%, at 99	38,610.00			
	⅛% commission	48.75			
	Interest accrued 5 mth. 13 da	1,059.50			
	48 M City of Marseilles 6%, at 99	47,520.00			
	⅛% commission	60.00			
	Interest accrued 5 mth. 13 da	1,304.00			
	76 M City of Paris 6%, at 97½	74,100.00			
	⅛% commission	95.00			
	Interest accrued 5 mth. 29 da	2,267.33			
15	10 M City of Lyons 6%, at 99	9,900.00			
	⅛% commission	12.50			
	Interest accrued 5 mth. 14 da	273.33			
16	11 M City of Bordeaux 6%, at 99	10,890.00			
	⅛% commission	13.75			
	Interest accrued 5 mth. 15 da	302.50			
	11 M City of Lyons 6%, at 99	10,890.00			
	⅛% commission	13.75			
	Interest accrued 5 mth. 15 da	302.50			
	13 M City of Marseilles 6%, at 99	12,870.00			
	⅛% commission	16.25			
	Interest accrued 5 mth. 15 da	357.50			
	24 M City of Paris 6%, at 97½	23,400.00			
	⅛% commission	30.00			
	Interest accrued 1 day	4.00			
17	3 M City of Bordeaux 6%, at 99	2,970.00			
	⅛% commission	3.75			
	Interest accrued 5 mth. 16 da	83.00			
	3 M City of Lyons 6%, at 99	2,970.00			
	⅛% commission	3.75			
	Interest accrued 5 mth. 16 da	83.00			
	2 M City of Marseilles 6%, at 99	1,980.00			
	⅛% commission	2.50			
	Interest accrued 5 mth. 16 da	55.33			
	5 M City of Paris 6%, at 97⅛	4,856.25			
	106 M do. 97½	103,350.00			
	⅛% commission	138.75			
	Interest accrued 2 days	37.00			

French Government in account with Kuhn, Loeb & Co., N. Y., to Oct. 22, 1919—Continued

		Dr.			Cr.
1918					
Oct. 25	250 M City of Paris 6%, at 98	$245,000.00			
	⅛% commission	812.50			
	Interest accrued 10 days	416.67			
28	1 M City of Bordeaux 6%, at 99	990.00			
	50 M do. 99¼	49,625.00			
	⅛% commission	63.75			
	Interest accrued 5 mth. 27 da	1,504.50			
	4 M City of Lyons 6%, at 99	3,960.00			
	51 M do. 99¼	50,617.50			
	⅛% commission	68.75			
	Interest accrued 5 mth. 27 da	1,622.50			
	1 M City of Marseilles 6%, at 99	990.00			
	49 M do. 99¼	48,632.50	*1918*		
	⅛% commission	62.50	Nov. 1	Coupons 1,510 M City of Bordeaux 6%.	$45,300.00
	Interest accrued 5 mth. 27 da	1,475.00			
30	8 M City of Bordeaux 6%, at 99⅛	7,930.00			
	⅛% commission	10.00		Coupons 2,190 M City of Lyons 6%.	65,700.00
	Interest accrued 5 mth. 29 da	238.67			
	3 M City of Marseilles 6%, at 99⅛	2,973.75			
	⅛% commission	3.75		Coupons 1,833 M City of Marseilles 6%.	54,990.00
	Interest accrued 5 mth. 29 da	89.50			
Dec. 2	370 M City of Bordeaux 6%, at 100⅜	371,387.50	Dec. 2	Check J. P. Morgan & Co.	1,000,000.00
	⅛% commission	462.50			
	Interest accrued 1 mth. 1 da	1,911.67			
	433 M City of Lyons 6%, at 100⅜	434,623.75	31	Int. to date	14,759.90
	⅛% commission	541.25			
	Interest accrued 1 mth. 1 da	2,237.17	*1919*		
	359 M City of Marseilles 6%, at 100⅜	360,346.25	Apr. 15	Coupons 1,880 M City of Bordeaux 6%.	56,400.00
	⅛% commission	448.75			
	Interest accrued 1 mth. 1 da	1,854.83			
1919				Coupons 2,623 M City of Lyons 6%.	78,690.00
June 13	Check J. P. Morgan & Co	1,000,000.00			
Oct. 22	Check J. P. Morgan & Co	1,477,535.44			
				Coupons 2,192 M City of Marseilles 6%.	65,760.00
				Coupons 2,413 M City of Paris 6%.	72,390.00
			June 30	Interest to date.	26,364.69
			Oct. 15	Coupons 2,413 M City of Paris 6%.	72,390.00
			Oct. 22	Interest to date.	11,071.60
		11,630,694.69			11,630,694.69

EXHIBIT No. 2762

[Confidential]

SEPT. 23, 1918.

FRENCH FINANCE COMMISSION,
2 Rector Street, New York.

DEAR SIRS: Referring to our letter of the 9th instant, we hereby beg to confirm our understanding as per telephonic conversation between your Mr. Bloch and our Mr. Kahn, according to which the limits of the orders which we have for you are raised, as follows, good till cancelled.

City of Paris bonds, from 95 to 97½ percent and interest.
French municipal bonds, from 97½ to 98½ per cent and interest.

We would ask that you be good enough to confirm the correctness of this understanding, and we beg to remain,

Yours very truly,

—— ——.

M.

Exhibit No. 2763

[Confidential]

Kuhn, Loeb & Co.,
William and Pine Streets, New York, September 27, 1916.

CITY OF PARIS SIX PERCENT FIVE-YEAR GOLD BONDS SYNDICATE

Dear Sirs: We beg to advise you that, subject to the necessary official action and the approval of counsel, we have completed negotiations for the issue in this country of $50,000,000 city of Paris six percent five-year gold bonds, due October 15, 1921. In connection with the purchase and sale of the above bonds we are forming a syndicate which is to purchase at 97 percent and accrued interest $30,000,000 face value of the said bonds with the privilege of purchasing at the same price, in lots of $1,000,000 or a multiple thereof, on or at any time before January 15, 1917, all or part of the $20,000,000 additional face value of bonds.

We have been advised that the city of Paris, having for more than two years past been subjected to very important and unusual expenditures for the alleviation of suffering caused by the war, this loan is to be made partly to reimburse the city for such expenditures and to provide for additional similar expenditures and for other municipal purposes.

The principal and interest of the bonds are to be payable without deduction for any French governmental or municipal taxes or other French taxes, in New York in United States gold coin of or equal to the present standard of weight and fineness, or at the option of the holder in Paris in francs, at the fixed rate of francs 5.50 per dollar, under regulations to be stipulated in the bonds. The bonds are to be redeemable at the option of the city of Paris at 102½ percent and accrued interest on October 15, 1918, or on any interest date thereafter on ninety days' previous notice.

It has been stipulated that the Government of the French Republic is to undertake, if necessary to permit the city of Paris to pay the interest or principal amount of the loan in gold in the city of New York, to furnish the city of Paris with gold in the amount needed and authorize its exportation for said purpose.

As our negotiations have been conducted in part by cable, we reserve the right to modify, in our discretion, the terms of the bonds and of the purchase. except as to the interest rate and maturity of the bonds, the purchase price, and the fixed rate of exchange.

The bonds are to remain syndicated under our management for a period of three months from October 15, 1916, unless the syndicate be sooner terminated by us. We are to be managers of, and may participate in, the syndicate, and as managers are to have full control of the affairs of the syndicate, with power in our discretion, to exercise the privilege of purchasing said additional $20,000,000 bonds in whole or in part, or to leave the same unexercised, and to sell the bonds and to repurchase and resell bonds, in our absolute discretion.

We shall make no charge for our services in managing the syndicate, as we are being otherwise compensated.

We beg to call to your attention that, in addition to the very attractive yield of the bonds, there is also the prospect of a very substantial profit in exchange, in view of the option to collect the principal and interest of the bonds at the rate of Fcs. 5.50 per dollar, while the normal rate of exchange before the war was about Fcs. 5.18 per dollar.

Kindly advise us promptly whether and to what extent you desire to participate in this syndicate, and we shall do our best to meet your wishes. All participations will be on the basis of a syndicate of $30,000,000 bonds with a proportionate amount in the option.

Yours very truly,

——— ———.

EXHIBIT No. 2764

City of Paris in account with Kuhn, Loeb & Co., N. Y.

Date 1916		*Dr.*	Date 1916		*Cr.*
Oct. 17.	Brown Bros. & Co.	$15,000,000.00	Oct. 16.	Proceeds of sale of $50,000,000 bonds at 96 + int.	$48,088,333.33
25.	" " "	15,000,000.00	Dec. 1.	Interest at 2%	25,512.45
Nov. 2.	" " "	17,900,000.00			
8.	American Bank Note Co.	2,274.65			
	The Signature Co.	299.92			
Dec. 1.	Brown Bros. & Co.	131,271.21			
		48,033,845.78			48,033,845.78

EXHIBIT No. 2765

$50,000,000 CITY OF PARIS FIVE-YEAR SIX PERCENT GOLD BONDS (MUNICIPAL EXTERNAL LOAN OF 1916), DUE OCTOBER 15, 1921, INTEREST PAYABLE APRIL 15 AND OCTOBER 15

Principal and interest payable without deduction for any French governmental or municipal taxes or other French taxes.

Principal and interest payable in New York in United States gold coin, or, at the option of the holder (to be exercised as to principal thirty days before the date of maturity or of redemption) in Paris in francs at the fixed rate of francs 5.50 per dollar.

Redeemable at the option of the city of Paris at 102½ per cent on October 15, 1918, or on any interest date thereafter on ninety days' published notice.

Coupon bearer bonds in denominations of $1,000, $500, and $100 each.

The Government of the French Republic is to undertake to furnish and permit the exportation of gold, so far as necessary, to permit the city of Paris to pay the interest or principal amount of the loan in gold in the city of New York. This loan is, we are informed, the only external loan of the city of Paris.

The purpose of the loan is stated to be to reimburse the city of Paris for the very important and unusual expenditures to which it has been subjected for more than two years for the alleviation of suffering caused by the war, to provide for additional similar expenditures and for other municipal purposes.

The undersigned will receive subscriptions for the above bonds, at 98¾ per cent and accrued interest, at which price the bonds net 6.30 per cent on the investment.

In addition there is the possibility of a very substantial profit in exchange, in view of the option to collect the principal and interest of the bonds at the rate of francs 5.50 per dollar, while the normal rate of exchange before the war was about francs 5.18 per dollar.

The subscription will be closed at three o'clock p. m. on Wednesday, October 4, 1916, or earlier, the right being reserved to reject any applications and to award a smaller amount than applied for. The undersigned reserve the right to close the subscription at any time without notice.

A first payment of $50 per $1,000 bond subscribed for must accompany all subscriptions. The balance of the amount due on bonds allotted upon subscriptions will be payable in New York funds, on Monday, October 16, 1916, at the office of the undersigned, against delivery of temporary certificates exchangeable for engraved bonds when received.

If no allotment be made, the first payment will be repaid in full, and if only a portion of the amount applied for be allotted, the balance of the first payment will be applied towards the amount due on October 16, 1916. No interest will be allowed on such first payment. If any further balance remains, such balance will be repaid. Failure to pay the second instalment, when due, will render the previous payment liable to forfeiture.

All allotments will be made subject to the necessary official action to complete the transaction and to the opinion of counsel as to legality.

KUHN, LOEB & CO.

NEW YORK, *October 2, 1916.*

EXHIBIT NO. 2766

[Rubber stamp: Kuhn, Loeb & Co., Aug. 31, 1916; filing department]

[Official]

AUGUST 30TH, 1916.

MY DEAR MR. DE NEUFLIZE: Referring to our conversations in regard to the suggestion for placing in this country bonds of the city of Paris, to be used to provide funds for use for humanitarian purposes, such as support of hospitals and care of the sick and needy, I beg to confirm that my firm is prepared in principle to undertake such a transaction on the following terms and conditions:

Subject to there being no material change in financial and investment market conditions here, we are prepared to purchase $30,000,000 face value of five-year 6% bonds of the city of Paris, with the option to us to take $20,000,000 additional of such bonds at the same price, which, in our opinion, bearing in mind the price at which the Anglo-French bonds are selling, and in view of the fact that the last issues of French and British bonds have been secured by collateral, should be not over 96% and accrued interest. The bonds should be issued as coupon bonds to bearer and be in denominations of $1,000, $500, and $100. Principal and interest of the bonds should be payable in United States gold coin of the present standard of weight and fineness, or at the option of the holder in francs at the fixed rate of exchange of say fcs. 5.60 for $1, without deduction for any present or future French or municipal taxes and duties which may be imposed thereon, or which may be retained therefrom. Principal and interest of the bonds should be payable at our office in New York, and we should be placed in funds for this purpose ten days prior to the respective maturities. We should receive ⅛% commission for making such payments. A clause should be inserted in the bonds providing that principal and interest of the same are to be paid in time of war, as well as in time of peace, and to holder, whether he be the subject or citizen of a friendly or of a hostile state, and due provision should be made that the French Government, or the Bank of France, as the case may be, will, if necessary, provide gold and facilitate its shipment to meet the payment of principal and interest as they respectively mature.

In case the city of Paris desires the privileges of earlier redemption of bonds, it will be perfectly agreeable to us to have a provision providing for the redemption of the entire issue, but not of any part, at 102½% and accrued interest on any interest date on and after two years upon, say, sixty days' notice. The proceeds of the loan should be placed in dollars to the credit of the city of Paris with Kuhn, Loeb & Co., who would allow thereon the current bank rate of interest for demand deposits until the money is withdrawn; the withdrawal to be made upon the order of such parties as may be authorized to do so by the proper authorities of the city of Paris.

To conform to the usual custom here, it would be well to have a trust company here, to be selected by us, appointed to act as "bond registrar", to countersign the bonds for identification.

We would also like to have an assurance from the city of Paris that no further issues of bonds, beyond the present issue, will be placed or offered in this country during one year from the date of the present proposed issue.

The legal opinion of leading French counsel should be furnished us in regard to the legality of the issue and its validity in the hands of American holders, and we should further be furnished with the necessary documents in regard to the authorization of the loan, such as certified copies of the necessary acts of the French Parliament, of the municipal council, and of such other parties whose consent or authorization or ratification may be necessary or any other documents counsel may advise as requisite.

We would also require a letter or memorandum signed by the proper authorities, giving the details of the financial position of the city, including its debt, its income, and its expenditures, and stating briefly its system of financial administration and organization, as well as the purposes for which this loan is issued. I enclose a draft of such a letter or memorandum, which shows the information which we would require for the purpose of our prospectus.

We understand that upon an agreement in principle in regard to the above being established, prompt steps will be taken to secure the necessary authorizations and ratifications, and that this can be accomplished by not later than September 15th, but that no definite contract is to be made until this has been done.

With assurances of high regard, believe me,

Very faithfully yours,

——— ———.

J. DE NEUFLIZE, Esq.,
New York.

S. M.

EXHIBIT No. 2767

[Carbon copy]

OCTOBER 3, 1916.

[Rubber stamp: Kuhn, Loeb & Co., Oct. 4, 1916; filing department]

[Official]

M. JACQUES DE NEUFLIZE,
Representative of the City of Paris in the City of New York,
New York City.

DEAR SIR: Pursuant to the agreement between the city of Paris and the undersigned, dated September 27, 1916, and subject to the official action and opinion of counsel therein provided for, we hereby exercise our option to purchase the twenty million dollars ($20,000,000) of five-year 6% gold bonds referred to in said agreement in addition to the thirty million dollars ($30,000,000) of said bonds covered by our firm purchase. Delivery of the entire $50,000,000 of bonds and payment therefor are to be made at our office in New York City on October 16, 1916.

Yours very truly,

——— ———.

EXHIBIT No. 2768

CRAVATH & HENDERSON,
52 William Street, New York, October 13, 1916.

CITY OF PARIS MUNICIPAL EXTERIOR LOAN OF 1916

DEAR SIRS: Messrs. Coudert Brothers advise us that their Paris office has been furnished with a copy of a letter from the Minister of Finance of the French Republic addressed to the Prefect of the Seine of Paris dated September 23, 1916, reading as follows:

"Comme suite a mes lettres des dixhuit et vingtun Septembre courant relatives a l'emprunt projete de la ville de Paris aux etats unis j'ai l'honneur de vous confirmer que le gouvernment prend envers la ville l'engagement de fournir en cas de besoin l'or necessaire pour faire le service en dollars de l'emprunt et d'en autoriser l'exportation."

We are also informed that a copy of this letter will shortly reach us by post. We are of opinion that you are now in a position to accept and pay for the $50,000,000, face value, of temporary bonds which have been executed on behalf of the city by Mr. deNeuflize.

We are also advised by Messrs Coudert Brothers that they expect shortly to receive word that Mr. deNeuflize is duly authorized on behalf of the city of Paris to sign checks against delivery of the bonds.

Yours very truly,

CRAVATH & HENDERSON.

Messrs. KUHN, LOEB & Co.,
52 William Street, New York.

EXHIBIT No. 2769

OCTOBER 14, 1916.

[Rubber stamp: Kuhn, Loeb & Co., Oct. 16, 1916; filing department]

Messieure KUHN, LOEB & Co.,
52 William Street, New York City.

DEAR SIRS: On Monday, October 16th, upon payment of the purchase price therefor you shall hold for your own account $50,000,000 face value of the city of Paris municipal exterior loan of 1916 temporary five year six percent gold bonds now held by you for the city of Paris.

Payment for such $50,000,000 of bonds shall be made by placing on your books in dollars the amount of $48,008,333.33 to the credit of the city of Paris, constituting the purchase price, and by notice delivered at the office of the undersigned to the effect that the purchase of said bonds and payment therefor has been made.

Yours very truly,

(Signed) J. DE NEUFLIZE
(For the city of Paris).

EXHIBIT No. 2770

[Carbon copy]

OCT. 16, 1916.

[Rubber stamp: Kuhn, Loeb & Co., Oct. 18, 1916; filing department]

(Official.)

J. DE NEUFLIZE, Esq.,
Representative of the City of Paris in the City of New York,
New York City.

DEAR SIR: We have your letter of October 14, 1916, relating to the delivery of and payment for $50,000,000 face value of the city of Paris municipal exterior loan temporary five year six percent gold bonds under the agreement between the city of Paris and the undersigned dated September 27, 1916, which bonds have been deposited with us by the Central Trust Company of New York for account of the city of Paris. Pursuant thereto we beg to notify you that we have this day taken over $50,000,000 of said bonds for our own account and have placed on our books to the credit of the city of Paris in dollars the amount of $48,008,333.33, constituting the purchase price for said bonds.

Yours very truly,

——— ———.

EXHIBIT No. 2771

[Official]

Nov. 20, 1916.

FRENCH MUNICIPAL LOANS

At a conference held at 3 p. m. on November 20, 1916, at the office of Kuhn, Loeb & Co., at which were present Messrs. deNeuflize, Bloch, Cazenave, Kahn and Mortimer L. Schiff, to formulate a reply to the inquiry transmitted from Monsieur Ribot, Messrs. Kahn and Schiff stated to the other gentlemen and authorized them to so inform M. Ribot, that, as is well known, the policy of K. L. & Co. ever since the beginning of the war, has been one of absolute neutrality; that K. L. & Co. has avoided doing or participating in any financing for belligerent purposes and that the firm of K. L. & Co. propose to maintain this policy and cannot in any way subject itself to any limitation, expressed or implied, upon its freedom of action to do any business not in conflict with this policy; but that under existing conditions, there is no likelihood of Kuhn, Loeb & Co. undertaking the placing here of any German municipal or other bonds and that K. L. & Co. had no present intention to make any such issues.

(Initialled:) O. H. K.
M. L. S.

EXHIBIT No. 2772

French Government account—Kuhn, Loeb & Co. (French municipal bonds—purchases and sales

[See Letter Sept. 9, 1918—Kuhn, Loeb to French Fin. Com.]

Date	Memo	Debit	Credit	Balance	
				Debit	Credit
1918					
9/10	Fed. Res. per ltr. 9/10/18—Fed. Res. cashier's chk. no. 4927		$2,000,000.00		
9/10	Bot	$433,012.08			$1,566,987.92
9/11	"	242,320.50			1,324,667.42
9/13	"	44,087.08			1,280,580.34
9/17	"	282,901.92			997,678.42
9/17	"	460,337.75			537,340.67
9/18	"	121,004.50			416,336.17
9/19	"	364,664.08			
9/19	Fed. Reserve per ltr 9/19/18		2,000,000.00		2,061,672.09
9/20	Bot	136,920.08			1,924,752.01
9/23	"	8,999.25			1,915,752.76
9/24	"	265,405.75			1,650,347.01
9/25	"	444,001.25			1,206,345.76
9/26	"	304,878.84			901,466.92
9/27	"	194,389.25			707,077.67
9/30	"	2,251,585.25			
9/30	2 checks:				
	1,000,000 fr. Cent. Un. Tr. Co				
	1,000,000 fr. Farmers L&T Co		2,000,000.00		455,492.42
10/1	Bot	108,738.75			
10/1	Fed. Reserve, per ltr. 10/1/18 Fed. Res. cashier's chk		1,000,000.00		1,346,753.67
10/2		502,225.91			844,527.76
10/2.	Sales		6,038.50		850,566.26
10/4	Bot	61,854.42			788,711.84
10/7	"	50,737.50			737,974.34
10/8	"	362,217.75			374,756.59
10/9	"	368,370.75			6,385.84
10/10	"	13,054.17			
10/10	Federal Reserve, per ltr. 10/10/18, Red. Res. cashier's check		2,000,000.00		1,993,331.67
10/11	Bot	113,630.92			1,879,700.75
10/14	"	250,611.58			1,629,089.17
10/15	Coupons 2028M Paris 6%		60,840.00		
10/15	Bot	10,185.83			
10/15	Federal Reserve per ltr. 10/15/18, Fed. Res. cashier's check		1,000,000.00		2,679,743.34
10/16	Bot	59,090.25			2,620,653.09
10/17	"	116,533.33			2,504,119.76
10/25	"	245,729.17			2,258,390.59
10/28	"	159,612.00			2,098,778.59
10/30	"	11,245.67			2,087,532.92
11/1	Coupons on 3 cities 5533M		165,990.00		2,253,522.92
12/2	To J. P. M. & Co	1,173,813.67	1,000,000.00		2,079,709.25
1919					
1/3	Interest to date		14,759.90		2,094,469.15
4/15	Coupons, Paris		72,390.00		2,166,859.15
5/1	" Bordeaux		56,400.00		
5/1	" Lyons		78,690.00		
5/1	"Marseilles		65,760.00		2,367,709.15
6/13	Morgan	1,000,000.00			1,367,709.15
7/1	Interest to date		26,364.69		1,394,073.84
10/5	Coupons, Paris 2413M		72,390.00		1,466,463.84
10/22	Interest to date		11,071.60		1,477,535.44
10/22	Morgan check as per ltr. 10/22/19, Verge to K-L, paid to Morgan for Fr. Com. Agency a/c	1,477,535.44			0

EXHIBIT No. 2773

[Official copy]

KUHN, LOEB & CO.,
William and Pine Streets, New York, December 6, 1916.

[Rubber stamp: Kuhn, Loeb & Co., Dec. 6, 1916; Filing department]

(Confidential)

DEAR SIRS: We beg to inform you that, subject to the necessary official action and the approval of counsel, we have completed negotiations with the Royal Dutch Company for the working of petroleum wells, etc., for the purchase of 74,000 of its ordinary shares of 100 guilders each. As the original Dutch shares are in bearer form, with coupons for dividends payable in guilders, we have arranged that they be deposited under an agreement, to be approved by us and our counsel, with a trust company in New York City, which is to issue in respect thereof certificates for "American shares" in registered form, each of such shares representing one-third of a Dutch share of the par value of 100 guilders; the equivalent of the dividends on shares represented by certificates to be paid to certificate holders in dollars. The agreement with the trust company is to provide among other things for the privilege to exchange the trust company certificates at the holder's option, for Dutch shares, at any time after December 15, 1917, upon surrender of certificates representing such shares, and upon payment of the charge as provided in the agreement.

In connection with the purchase of said Dutch shares and the sale of said certificates for American shares, we are forming a syndicate which is to take over from us and our associates the 222,000 American shares representing the 74,000 Dutch shares at the price of $64.50 for each American share, ex the interim dividend of 15 percent to be payable in January. Payment for shares purchased is to be made on five days' notice but no payment will be required before early in January. At the syndicate's purchase price, the return upon the investment, on the basis of the dividend distribution for 1913, 1914, and 1915, would be approximately 10 percent.

Application for the listing of the American shares on the New York Stock Exchange will be made in due course. The company has agreed that application shall be made for the official listing of the new 100 guilder shares in Amsterdam and, as soon as the restrictions upon listing of new securities are removed by the British Government, also in London.

Kindly advise us promptly whether and to what extent you desire to participate in this syndicate for 222,000 American shares and we shall do our best to meet your wishes; upon allotment of your participation, we shall send you a copy of the syndicate agreement for signature, which will provide for the expiration of the syndicate on February 28, 1917, unless the same be sooner terminated by us.

We beg to enclose for your confidential information copy of an advance draft of an explanatory letter from the Royal Dutch Company, giving details as to the company and its status; these have been communicated to us partly by cable and we believe them to be correct, but they are not guaranteed by us.

Yours very truly,

——— ———.

643

EXHIBIT 2774

[Pencil notation: Royal Dutch]

KUHN, LOEB & CO.,
New York [*about Nov., 1915*]

(Copy of cable sent to ——— ———)

First company sold us and we purchased 74,000 subshares ex 15% interim dividend payable January 15, 1917, but inclusive final dividend 1916 and following dividends at $184½ per subshare. Company will provisionally deliver promptly to Equitable Trust Co., Paris, certificate for 7,400 shares of F 1.1,000 each registered trust company's name and will replace this certificate earliest possible by fully executed actual subshares delivered trust company in New York free expense. We shall credit company 2nd January upon advice Equitable Trust that certificate received purchase price $13,653,000. *Second*, subshares are coupon form to bearer, provided with talon for obtain fresh coupon sheets free of expense in New York. *Third*, subshares exchangeable any time at bearer's option free of expense, except Dutch stamp tax for F 1. 1,000 shares, at company's head office. *Fourth*, we have full authorization make arrangements with one or more trust companies in America for issue against deposit of subshares of certificates in any shape and under any conditions we select, but without responsibility to company. *Fifth*, company will not be party to any similar arrangements for conversion shares in America. *Sixth*, company will make no issue shares New York for one year, and if company should acquire property in exchange for its shares, shall, if possible, make provision preventing marketing such shares before expiration one year from November 24. *Seventh*, company will use its best endeavors to obtain official quotation subshares sold to us in Amsterdam promptly and in London as soon as legally possible, whereagainst we guarantee the subshares we have purchased shall not come on Amsterdam market before November 24, 1917. *Eighth*, company will furnish us with written opinion addressed to us of its counsel in Holland, Dr. Phillips, that its agreements legally entered into and shares legally issued and executed and lawful in hands American owners. *Ninth*, company agrees with trust company *section one*, pay all dividends on shares trust company holds to trust company in New York in dollars by buying cable transfers at Amsterdam at current rate or at trust company's option to its order in Amsterdam in guilders on first day dividend payable in Amsterdam. *Section two*, company shall pay trust company ⅛% compensation on such dividends. *Section three*, trust company to cancel paid bearer coupons and forward them to company registered, not insured, at company's risk. *Section four*, after receipt fresh coupon sheets trust company to cancel and forward talons same way. *Section five*, company appoints trust company for whole duration of circulation its certificates as depositary for shares for meetings and all other purposes and shall accept trust company's notification of deposited shares by cable instead of mail. *Section six*, company will convene meetings ordinary shareholders with at least three weeks' notice and will cable such notices immediately to trust company. *Section seven*, company will give trust company three weeks' notice by cable of any dividends to be paid or proposed or any proposals to be submitted to meetings. *Section eight*, as trust company is not real owner of shares it holds, it shall be entitled to give company names of such other parties for purposes of voting in meetings and otherwise as the trust agreement shall provide. *Tenth*, company will pay initial expenses trust company or companies up to ten thousand dollars and annual fees up to two thousand dollars. *Eleventh*, company will supply necessary data for listing trust company certificates New York Stock Exchange. Summary ends.

LOEB.

EXHIBIT No. 2775

[Carbon copy]

THE HAGUE, *December 1916*.

(Duplicate.)

Messrs. KUHN, LOEB & Co.,
New York.

DEAR SIRS: In connection with your purchase of common shares of this company, I take pleasure in giving you the following information:

The Royal Dutch Company for the working of petroleum wells in Netherland India, was incorporated in The Hague, Kingdom of the Netherlands, in 1890. Created with a capital of Fl. 1,300,000,[1] the company started business on a small scale, but had gradually extended its activities and through its subsidiaries is now the largest international producer and distributor of mineral oil and its by-products of Europe.

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[1] Fl. 1=1 Dutch Guilder=about $0.402 gold.

Capital	Outstanding	Authorized
Common shares	Fl.[1] 75,527,200	Fl. 120,000,000
Four per cent preferred shares	Fl. 1,500,000	Fl. 1,500,000
Four and one-half per cent cumulative priority shares	Fl. 28,500,000	Fl. 28,500,000

[1] Exclusive of the present issue.

Surplus: Fl. 53,412,151.

As to the rights, preferences, and voting powers of the various classes of shares I refer you to the articles of association.

The 4½ per cent priority shares were placed in France in 1911 at 98¼ per cent by the credit Lyonnais.

The company has no funded debt and no fixed charges.

Character of business.—The company is engaged in the business of producing, refining, storing, and marketing mineral oil and its by-products through its numerous subsidiaries.

Growth and development.—The company started as a local enterprise of the Dutch East Indies. After the first decade of its existence, it developed rapidly. Its first activity in the international field was the foundation in 1902 in conjunction with the "Shell" Transport & Trading Company of London and the de Rothschild (Paris) group, of the Asiatic Petroleum Company to provide for the distribution of the products of the three associated groups. In subsequent years the company absorbed the principal other oil producing enterprises in the Dutch East Indies, thereby acquiring the predominant position in this field of production. This being accomplished, the "Royal Dutch" amalgamated its interest with those of the "Shell." The combined assets of both the "Royal Dutch" and the "Shell" were turned over to two new companies; the Bataafsche Petroleum Company" and the "Anglo-Saxon Petroleum Company." The "Bataafsche" does the producing, the "Anglo-Saxon" the transportation and distribution business. The "Royal Dutch" holds 60 per cent in these two concerns, the "Shell" 40 per cent. Besides, the "Royal Dutch" owns 12½ per cent of the outstanding ordinary "Shell" shares.

From this time the combined Royal Dutch and Shell interests rapidly expanded their sphere of activity in the international field. They successively acquired, in addition to their possessions in the Dutch Indies, exclusive or controlling interests in important oil fields in Roumania, Russia, Egypt, the United States (Oklahoma and California), Panama, Venezuela, and Mexico—and long contracts for most products of Persian oil fields controlled by other interests. The largest of these interests is in Russia, where the Royal Dutch-Shell interests have been amalgamated with those of the de Rothschild (Paris) group.

The American interests of the combination are expanding rapidly. It owns a predominating interest in the Roxana Petroleum Company of Oklahoma, and the Shell Company of California. The Roxana has an issued capital of $5,000,000, and the Shell of $33,535,575. The Roxana owns fields in the well-known oil districts of Cushing, Healdton, and Bartlesville. There are under construction 140 miles of six-inch pipe line, from Cushing to Healdton, to be put in operation in January next, and 450 miles of ten-inch pipe line, from Cushing to St. Louis, to be put in operation by the end of 1917. The combination has further undertaken the construction of a large refinery in St. Louis. At Martinez, on the Pacific coast, near San Francisco, a refinery capable of handling 25,000 barrels a day and storage facilities at Martinez and on the fields for 4,250,000 barrels have been established, as well as an eight-inch pipe line 170 miles long, from the field to the refinery. In Mexico the allied companies have also storage for 2,000,000 barrels, and further for 500,000 barrels nearing completion. The combination is further occupied in establishing large storage facilities and a refinery of exceptionally great capacity in Curacao (Dutch West Indies) in the immediate proximity of the Pamana Canal.

General policy.—The company's main object has been to acquire throughout the world producing territories and make such arrangements as will enable it to meet the demands of consumers by local production, if possible, or by furnishing oil from the nearest neighboring district. In this way the trade of the company has become more and more independent of freight and transport questions and has benefited the consumer by the resulting economies of supply. In addition to the vast and comprehensive and carefully planned organization of its producing territories, refineries, and distributing arrangements, the company controls through its subsidiary companies a fleet of 292,970 tons. This fleet has always been kept up to a high standard of efficiency in every respect. The affiliated companies have also in course of construction additional steamers of a total tonnage of 5,800. The contracts for these 5,800 tons, as well as for 35,400 tons quite recently put into service, were entered into before the European war, at prices vastly below the present cost of ships. In fact, the companies, if they so wished, could now dispose of these new steamers at profit of over Fl. 20,000,000.

Production.—The production of the company and its affiliates in the East Indies alone amounted—

In 1890 to	1,230	tons
“ 1895 “	90,152	“
“ 1900 “	439,350	“
“ 1905 “	1,136,937	“
“ 1910 “	1,435,240	“
“ 1914 “	1,539,236	“
“ 1915 “	1,594,533	“

The controlled production in Russia in 1914 amounted to 1,526,849 tons, and in the other fields to 568,000 tons and 6,900,000 barrels, making a total production in all the fields of about 4,786,000 tons of 1,000 KG (= about 31,100,000 barrels). In 1915 the production aggregated 4,367,384 tons (= about 28,400,000 barrels). The decrease is due to temporary local conditions and has no relation to the producing capacity of the fields.

Earnings and dividends.—In 1907, before the amalgamation with the "Shell" was consummated, the Royal Dutch Company, in order to re-establish a more nearly correct proportion between its nominal capital and the real value of its assets, distributed its surplus to its shareholders by allowing them a stock bonus of 200 percent, thus trebling its nominal capital. Taking this into account, it will be seen that since 1902, when the "Asiatic" was founded, the dividends have constantly and regularly increased, with the sole exception of 1911, when the company, although the earnings would have allowed the distribution of a much larger dividend, reduced the rate as a matter of policy, with a view to exceptional circumstances prevailing at that time.

Year:	*Dividend*	Year:	*Dividend*
1902	24%	1909	28%
1903	35.85%	1910	28%
1904	65%	1911	19%
1905	50%	1912	41%
1906	73%	1913	48%
1907	[1]27¾%	1914	49%
1908	28%	1915	49%

[1] After trebling the capital by distribution of a stock dividend of 200%.

In June 1916 the company offered its shareholders the privilege to subscribe at par to one new share for each three old shares.

Distribution of profits

4½ percent to priority shareholders.
4 percent to preferred shareholders.
6 percent to ordinary shareholders.

The rest is appropriated as follows:

93 percent to ordinary shareholders.
3 percent to managing directors.
4 percent to commissaires, with a maximum of Fl. 30,000 for each one of them.

Reserves.—In the last published balance sheet of 31st December 1915, the accumulated surplus was stated at Fl. 53,412,151.90. This sum, however, is very far from representing the real extent of the company's surplus, as many of the assets, such as shares in allied companies, stand in the books of the company at only a fraction of their real value. Thus the company owns shares and participations in various petroleum concerns, either controlled or allied with it, of the face value of Fl. 169,247,785, which were producing a net income of slightly over

Fl. 29,000,000. Notwithstanding this large percentage of income and the sound and steadily increasing value of these properties, the above holdings of the company of Fl. 169,247,785 have been written down by Fl. 47,728,075.07. If this income were capitalized, say, on a 7 per cent basis—which in view of the intrinsic value of the properties and their promise of future yield would not seem unreasonable, the value of these holdings would be approximately Fl. 414,000,000, thus constituting what may be considered a "hidden reserve" equaling Fl. 292,000,000, i. e., 385 per cent of the entire outstanding ordinary shares, quite irrespective of the value of the other vast assets of the company.

In addition to the reserves created in the Royal Dutch Company, the Bataafsche and the Anglo-Saxon Petroleum Companies in their turn also established very considerable reserves by writing down their properties to an exceedingly conservative figure, while the shares held by them in the allied and subsidiary companies are valued in their balance sheets at only a portion of their real values.

Shares.—The common shares are of the par value of Fl. 1,000 each, but the company issues sub-shares of Fl. 100 each. The shares and sub-shares are quoted in Amsterdam, and, since December 1913, the sub-shares also in London, where they were introduced by Messrs. N. M. Rothschild & Sons of 620 per cent[1] and application will be made for the listing of the shares, now sold to you, on the Amsterdam Stock Exchange and after the war on the London Stock Exchange. The price of the shares on the Amsterdam Stock Exchange since 1902 has fluctuated as follows:

Year	High	Low
1902	499	381
1903	515	415
1904	587	435
1905	577	305½
1906	798	383½
1907	906 [1] 340	719 [1] 225
1908	324	270½
1909	580	426
1910	580	399
1911	501	406
1912	588	444
1913	652	556¼
1914	639½	487½
1915	563½	453½

[1] After distribution of stock dividend of 200 percent.

In May 1916 the quotation rose to 659 per cent, including both the final dividend of 34 per cent for 1915 and the right of subscription for new shares at par. After the detachment of the dividend and the subscription rights, the quotation was about 500 per cent, since which time it has maintained itself between that price and 530 per cent.

Present position and prospects.—The company should derive great benefit from the development of liquid fuel owing to the favorable geographical location of its supplies and we believe will be in an unique position for the supply of liquid fuel in the future from its different producing centres to navigation companies and other users throughout the world.

Our allied companies (of the respective capitals of which this company owns about 60 per cent) have spent of late years more than Fl.50,000,000 in California and Mexico and are on the point of completing arrangements for organization, which, when completed and in working order, will, we have no doubt, contribute largely to our earnings.

The test to which the company and its allied organizations have been put by the war crisis in Europe has afforded additional proof that its general structure is built on such a basis as will resist the severest upheavals that the world's commerce can be put to. Although in certain countries the company's trade, owing to the war, has been restricted, in others the result has been the opposite, and on the average the earnings and general progress have been fully maintained. On the whole, however, we have not like many other industrial corporations derived benefits from the war, and we feel justified in looking forward in the future when peace will have become re-established to even greater prosperity in every direction in the affairs of our companies.

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[1] For the purpose of comparing that price with the present price it must be borne in mind that the subscription privileges to new stock offered to shareholders in June 1916 was at the then prevailing price equal to a bonus of approximately 120 per cent.

As regards the current year, although it is yet premature to commit the company to a statement of the probable dividend for the year, we are nevertheless justified in stating that the company's business is developing in an exceedingly satisfactory way, and we believe that our shareholders will have no reason to be disappointed by the results obtained and the dividends distributed for the year 1916.

We are, dear sirs,
Yours very truly,

H. W. A. Deterding,
General Managing Director.

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MUNITIONS INDUSTRY

HEARINGS

BEFORE THE

SPECIAL COMMITTEE
INVESTIGATING THE MUNITIONS INDUSTRY
UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS
SECOND SESSION
PURSUANT TO

S. Res. 206

(73d Congress)

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS
CONCERNING THE MANUFACTURE AND SALE
OF ARMS AND OTHER WAR MUNITIONS

PART 29

FEBRUARY 4 AND 5, 1936

ALLIED FINANCING IN THE UNITED STATES
1917-1923

J. P. MORGAN & COMPANY

Printed for the use of the
Special Committee Investigating the Munitions Industry

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83876 WASHINGTON : 1936

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LAWRENCE BROWN, *Financial Assistant*

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Note.—Accounts, records of security transactions and various financial data relating to the subject matter herein discussed will be found among "Exhibits Nos. 4201, 4211 through 4216", Hearings, Part XXXIII; "Exhibit No. 4217", Hearings, Part XXXIV; also, "Exhibits Nos. 4218 through 4228, 4230 through 4253, and 4257 through 4259", Hearings, Part XXXV.

INVESTIGATION OF MUNITIONS INDUSTRY

TUESDAY, FEBRUARY 4, 1936

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in the Caucus Room, Senate Office Building, pursuant to adjournment, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), George, Bone, Pope, Vandenberg, and Barbour.

Also present: Stephen Raushenbush, secretary, and Lawrence Brown, financial assistant to committee, and Robert Wohlforth, assistant to the secretary.

TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, AND GEORGE WHITNEY—Resumed

The Chairman. The committee will come to order. Mr. Leffingwell and Mr. Rathbone, the committee should like to have both of you on the stand also this morning.

Mr. Leffingwell. Mr. Rathbone is on his way up here now.

TESTIMONY OF R. C. LEFFINGWELL

UNITED STATES POLICY TOWARD PRE-EXISTING ALLIED INDEBTEDNESS [1]

(The witness was duly sworn by the chairman.)

The Chairman. Mr. Leffingwell, you have given the reporter your name?

Mr. Leffingwell. I have, Senator.

The Chairman. And your present address?

Mr. Leffingwell. 38 East Sixty-ninth Street, New York City.

The Chairman. The Chair regrets having to announce this morning the illness of Senator Clark, who was to have continued the examination. In his absence, Mr. Raushenbush will proceed.

Mr. Raushenbush. Mr. Chairman, as I gather the question that Senator Clark was interested in and wanted to talk with the witnesses about, it was that of the sequence of events that followed the absence of legislation prohibiting loans and credits during the war for the purchase of arms and munitions generally. We have gone into that in previous hearings up to about the date we entered the war, and, in fact, had a little discussion on some of the things that took place after we entered the war.

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[1] For U. S. policy toward Russian private debt see "Exhibits Nos. 3284 through 3333", Hearings, Part XXX; also, "Exhibits Nos. 4020 through 4038", Hearings, Part XXXII; toward Italian, "Exhibits Nos. 4005 through 4019", Hearings, Part XXXII. See also "Exhibits Nos. 4135–A through 4172", Hearings, Part XXXII; and "Exhibit No. 4246", Hearing, Part XXXIII.

As I look over his notes, I see that he was interested particularly in finding out, if I interpret him correctly, whether the sequence of events which happened after we entered the war was inevitable, whether the things that were done then had to be done under the pressure of circumstances.

I will see what I can do with his brief.

Mr. Leffingwell, before we go further, will you be kind enough to state for the record your connection with the Treasury, the dates, and your connections later?

Mr. LEFFINGWELL. I entered the Treasury on the 8th of May 1917, as special counsel and assistant to the Secretary in connection with the Liberty Loans. I became Assistant Secretary of the Treasury at the end of October 1917 and remained Assistant Secretary until the end of June 1920.

I returned to the practice of the law in New York, which was my home, with my old firm, from which I had withdrawn when I entered the Treasury, and I became a partner in J. P. Morgan & Co. in July 1923.

Mr. RAUSHENBUSH. And have been so since?

Mr. LEFFINGWELL. And have been so ever since.

The CHAIRMAN. I see Mr. Rathbone has come in. Mr. Rathbone, will you be sworn?

TESTIMONY OF ALBERT RATHBONE

(The witness was duly sworn by the chairman.)

Mr. RAUSHENBUSH. Mr. Rathbone, will you be kind enough also to state for the record the time of your connection with the Treasury and your connections since then?

Mr. RATHBONE. I do not remember dates, and I will have to get out my memorandum, which I have here.

I started to work in the Treasury, as a member of the War Loan staff, on January 22, 1918. On September 4, 1918, I was appointed Assistant Secretary of the Treasury in charge of foreign loans.

On September 3, 1919, I was requested by President Wilson to go to Europe in the capacity of financial adviser to the Peace Mission.

On October 2, 1919, I sailed from New York for Paris. I was in Paris and London until June 5, 1920.

I resigned from participation in the deliberations of the Reparations Commission on April 1, 1920, and on June 30, 1920, I resigned as Assistant Secretary of the Treasury.

Mr. RAUSHENBUSH. I did not catch the last date.

Mr. RATHBONE. June 30, 1920, my resignation as Assistant Secretary of the Treasury was accepted, as of that date.

Mr. RAUSHENBUSH. What connections have you had since that date?

Mr. RATHBONE. Well, I tried to take a vacation, but I had to start the practice of law in August 1920, and on September 1, 1920, I became again a member of the old firm, legal firm, of which I had been a member when I came to Washington, although the name was then changed to Larkin, Rathbone & Perry. It had been, when I withdrew, Joline, Larkin & Rathbone.

Mr. **Raushenbush.** And you are still there, I take it?

Mr. **Rathbone.** I am.

Mr. **Raushenbush.** We find that there was a great amount of private indebtedness outstanding, private indebtedness of the various European belligerent countries, in this country, and I think I would like to enter those amounts as we have them here.

There was an Italian loan of $25,000,000. The British loans totaled $1,476,000,000.

Mr. **Lamont.** What date is it, Mr. Raushenbush?

Mr. **Raushenbush.** As of April 7, 1917. The British loans outstanding totaled $1,476,511,566.

Mr. **Lamont.** Do those include the joint Anglo-French obligations?

Mr. **Raushenbush.** It includes half of the Anglo-French, $250,000,000.

Then the French loans outstanding were $675,315,988, and the Russian loans outstanding were $86,000,000.

The **Chairman.** You are offering these summaries for the record, Mr. Raushenbush?

Mr. **Raushenbush.** I am offering these summaries for the record.

(The four documents referred to were marked "Exhibit No. 2776, Exhibit No. 2777, Exhibit No. 2778, and Exhibit 2779", and are included in the appendix on pp. 9205 and 9206.)

Mr. **Lamont.** Mr. Raushenbush, you speak of the French in general terms there?

Mr. **Raushenbush.** Yes, sir.

Mr. **Lamont.** Of course, you do not mean in every instance the loan was the obligation of the French Government, do you?

Mr. **Raushenbush.** No; it was not entirely so.

Mr. **Brown.** That included loans of which the proceeds went to the French Government, Mr. Lamont. It includes the Brown Bros. acceptances, the November 11 acceptance credit, and the French City loans.

Mr. **Lamont.** Yes; but I think it is of interest to note the differentiation there, as you have just brought it out, between those various classifications of loans, because they are not all French Government loans.

Mr. **Brown.** They are loans, the proceeds of which went to the French Government?

Mr. **Lamont.** Quite.

Mr. **Raushenbush.** There is no argument about that.

Mr. **Lamont.** I do not think so.

Senator **Vandenberg.** Are those all the loans relating to the war prior to our entry?

Mr. **Raushenbush.** Yes, sir.

The **Chairman.** What do they total?

Mr. **Raushenbush.** They total $2,262,827,544, excluding Canadian obligations. That includes the demand loan at that time.

Mr. Leffingwell, you, as I gather it, were not in the Treasury at the time the Liberty Loan Act was passed, were you?

Mr. **Leffingwell.** No. May 8; and the Liberty Loan was about April 28, was it not, or something like that?

Mr. **Brown.** The 26th, I believe.

Mr. **Leffingwell.** The 26th, was it?

Mr. **Raushenbush.** I want to enter the Liberty Loan Act and call attention to section 2, in which it states [reading from "Exhibit No. 2780"]:

> the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to purchase, at par, from such foreign governments then engaged in war with the enemies of the United States, their obligations hereafter issued.

What did that mean? How did you interpret that?

Mr. **Leffingwell.** That meant exactly what it said. It was perfectly clear and explicit. We were to buy obligations issued after the execution of the Act, which was always done.

Mr. **Raushenbush.** But not any obligations issued before?

Mr. **Leffingwell.** Oh, no; we could not buy any obligations issued before, but we could buy obligations issued after, regardless of the fact that they were used by the governments for the purchase or payment of obligations issued before.

The **Chairman.** Was it the purpose and intent of the Act to prevent the Federal Treasury taking up any obligations that had been created prior to our entry into the war?

Mr. **Leffingwell.** No; it was not. It was made very clear in the course of the debates on the first Liberty Loan Act that it was the wish of many of the Members of Congress who participated in that debate that that should not be done, and that the Chairman of the Ways and Means Committee said he did not think it would be done, but he went on to say that it was necessary for the Congress to give authority to the President and the Secretary of the Treasury and the Allied Governments to do what they thought was best.

And it is quite clear to me, and always was, that while it was greatly desired that that should not be done, that the authority was left in the Treasury that it should be done.

Mr. **Rathbone.** Did not they say in the debate in the Congress that the money would be advanced to the Allied Governments, and they could use the money for such purposes as they saw fit?

Mr. **Leffingwell.** Yes. It was said by Mr. Kitchin, it was said by Mr. Mann, it was said by Mr. Mondell, and every one of those men said, and the whole course of the debate showed: "This is a thing we deplore, and we hope it won't happen, but we are fighting a great war, and this is the only contribution we can make to the winning of the war at the present moment because our armies cannot be effective for some time, and we must leave it to the Secretary of the Treasury and to the President and to the Allied Governments, whose obligations we purchase, to use the money as they think best."

That, at least, is the way I interpret the debate. It goes through pages and pages, as you doubtless know.

Mr. **Brown.** Then it was left, in effect, to be a matter of policy, although it was not made a matter of law, that the money was to be used in a certain way, and not in other ways, to pay off previous indebtedness, Mr. Leffingwell?

Mr. **Rathbone.** It was their money when we bought the obligations, not ours. We were not loaning copper to the British, so that they could pay back so many tons of copper at a different price, but we were loaning dollars, and the moment we bought the obligations of the British Government, the French Government, or any other government, the money that they got was their money. They could have used it for anything. While they told us what they were going to use it for, and while we asked them to account for it afterward, it was their money just as much as your money in your pocket is your own money, and you could do what you please with it.

Mr. **Brown**. But Mr. Leffingwell has indicated that there was a policy at least on the part of one section of the American Government, as to what use would be made of that money. No law, to be sure, but a matter of policy.

Mr. **Rathbone**. The moment we loaned them the money it was their $10,000,000. We could say, "We won't loan you another $10,000,000 because you have used this $10,000,000 in a way we do not like"; and we could say, "We will advance this $10,000,000 on our understanding that you are going to use it for this purpose." But the moment they got the $10,000,000, it was theirs and not ours.

Senator **Vandenberg**. It still is.

Mr. **Brown**. I do not think there is any question about it, but there were ways we did not like and ways we did like, and that differentiation was present from the very beginning; that there would be ways that this money should be spent in the United States, and then ways it could be spent which we would not like.

Mr. **Rathbone**. Surely; but it was theirs. We did not control their money.

Mr. **Brown**. There is no question about that.

Mr. **Leffingwell**. I think what Mr. Rathbone says is very clear and very important, and it is necessary to emphasize it, because while in one's dealings with a sovereign state, with a great nation associated with the United States in the war, one might have power to say what was desirable and what was to be avoided, but one could only go so far in enforcing one's judgment and one's wish. One could only do so partly because no Finance Minister, no Secretary of the Treasury, can afford to take the responsibility of determining in too arbitrary a fashion what a great and friendly nation associated with us in the war should do with the money, which is the proceeds of the purchase of its obligations by the United States, and also because the military decisions were so important.

But I think the thing which I wanted to make clear, as my opinion, Mr. Raushenbush, about the point involved here could be put before you in a way which would appeal to you, in a very few words, if I may pursue it.

Mr. **Raushenbush**. I want you to do that; but before you do it, could you say, for our clarification, that you agree with Mr. Rathbone in his general statement that there were really no checks on that money, as I interpret his statement?

Mr. **Rathbone**. I did not say that at all.

Mr. **Raushenbush**. I am sorry.

Mr. **Rathbone**. I did not say that at all. I said it was their money, but they reported to us the use they made of the money.

Mr. **Raushenbush**. You do not interpret that as saying that, roughly, there were no checks, once we turned the money over to them?

Mr. **Rathbone**. Not at all. There were many checks on the way they spent the money.

Mr. **Raushenbush.** I mean checks by the United States Treasury for doing this and not that.

Mr. **Rathbone.** You could not forbid them, when it was their money, but we could say that we wanted the money used in a certain way, and they reported to the Treasury the uses they made of the money and the uses they made of the money were considered and talked over with their representatives, if we did not like it, before we made another loan.

Mr. **Raushenbush.** I am trying hard to understand you, Mr. Rathbone.

Mr. **Rathbone.** I am trying hard to make it plain.

Mr. **Raushenbush.** As I understand it, you say that one could hold up, that is, the Treasury could hold up further later loans, perhaps, if it did not like the way the Allies had spent some money already loaned? Is that right?

Mr. **Rathbone.** That is true.

Mr. **Raushenbush.** To that extent, there was a check?

Mr. **Rathbone.** We had the authority to make or not make the loans.

Mr. **Raushenbush.** To that extent there was some kind of a check?

Mr. **Rathbone.** Some kind of a check.

Mr. **Leffingwell.** I want to see if I can make clear the thing in my mind about the understanding of Congress, which is a question that you first raised.

Mr. **Raushenbush.** Yes, sir.

Mr. **Leffingwell.** It is true that the Congress was clearly desirous that there should be some limitation, or some Members of the Congress were desirous that there should be some limitation in respect to the acquisition of preexisting debts of the Allied Governments, the amounts which you have been mentioning here.

They expressed that in the course of the debate, which was very, very protracted, and every time it came up, it came up in some one of several forms.

For instance, there was a question in the minds of some Members of Congress whether it might be possible that these Allied Governments would go out in the market and buy up bonds at a discount, rather than borrow the money from the United States. We know that was not done. That was one of the fears that was expressed, and that did not happen.

Another fear that was expressed was that some bankers would receive commissions on the loans made by the United States, and of course that did not happen.

The thing which did happen, and it is not quite clear that any Members of Congress had this particular point in their minds—it is not quite clear, but maybe they did—was, that when a maturity occurred, such as the maturity on February 1, 1918, or on September 1, 1918, of British obligations, and the Secretary of the Treasury ascertained that that maturity could not be dealt with except by an issue in our markets, on terms which he considered disadvantageous to the Allied cause and to the credit of Great Britain and to the success of the Liberty loans, it is not quite clear that they did not intend such a critical problem to be dealt with.

The passage about which I want to speak to you in these debates——

The CHAIRMAN. You say passage from debates. Were they debates in committee or on the floor?

Mr. LEFFINGWELL. In the Congress. All the debates in committee, Senator, except on the first Liberty Bond loan bill which preceded my connection with the Treasury, all of them were recorded except on the first, and that was in executive session, and there is no report of it, and I have never seen it, but there are evident references to it on the floor, and there are references to it on both sides of the House.

I want to remind you about Mr. Kitchin. He was one of those devoted men who did not believe in going to war. He voted against the war. He said it was his path of duty, and he would travel it barefooted and alone. But when, a few weeks later, the first Liberty bond bill was presented, he was chairman of the Ways and Means Committee and leader of the House, was he not, sir?

The CHAIRMAN. I think he was.

Mr. LEFFINGWELL. And he brought in a unanimous report from his Ways and Means Committee on the First Liberty bond bill, and he led the debate in the House.

This is only a paragraph which I would like so much to read you, if I may [reading]:[1]

> Mr. HAYES. The thought I had was this: There is nothing to prevent these foreign governments taking up these higher-rate bonds, bearing, some of them, 6-percent interest—

That is what he said—

> There is nothing to prevent these foreign governments from taking up these higher-rate bonds, bearing, some of them, 6-percent interest, and issuing in lieu these bonds or taking the money and retiring those bonds.

Then Mr. Kitchin states [reading]:

> Mr. KITCHIN. There is nothing specifically to prevent that, but I hardly conceive that it would be done. If we are going to lend this money to the governments that we are cooperating with, to more effectively prosecute this war, why not leave it to them to expend the proceeds in any way which their judgment tells them is the best way to achieve success in the prosecution of this war, and not limit or qualify the use of the money?

The Record says "Applause." That is what was done. The bill did not, as Mr. Hayes pointed out, limit the power to do it, and the committee hoped it would not be done, but it definitely passed the bill without that limitation on the power to do it.

That bill passed the House, as I remember it, without a dissenting vote, or with three or four dissenting votes. And the whole course of the debate shows that the Members of Congress, whether they had been for the war or against it, had consciously in their minds the thought that we were in this war and we had to win it, and we could not possibly permit ourselves to be in the position where we placed an insuperable obstacle in the way of financing it successfully. That is my opinion of the course of the debate.

The CHAIRMAN. Mr. Leffingwell, what is the date of this particular debate? Do you have the reference to it there?

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[1] Entered later as "Exhibit No. 3017," appendix, p. 9433. See also infra, p. 8995 and 9145.

Mr. **Leffingwell.** Yes, sir; it is April 13, 1917, and it begins at page 626. The passage which I have been quoting from is at page 630.

The **Chairman.** Very well.

Mr. **Leffingwell.** This is just a copy from it, because the books are so big, but would you like to look at it? [Handing copy to chairman.]

Mr. **Raushenbush.** In that connection, Mr. Leffingwell, in the Treasury, did you interpret the debate as in any way vitiating the one phrase in the act itself, allowing the Treasury to take up foreign obligations hereafter issued?

Mr. **Leffingwell.** Oh, no. The debate also made it perfectly clear that the Members of Congress had pointed out, as they did in the course of the debate, that while the obligations which the Treasury purchased must be hereafter issued, they made it perfectly clear that, as the bill stood, and as it passed, the proceeds of the obligations hereafter issued might be applied to the purchase of obligations heretofore issued. It was perfectly clear from the debate, and it was perfectly clear in the law.

Mr. **Raushenbush.** In the law there is not anything about that particular point, is there?

Mr. **Leffingwell.** The clause which you have just read?

Mr. **Raushenbush.** I mean the point which you made, that there was nothing——

Mr. **Leffingwell.** I was expressing a legal opinion about the law.

Mr. **Raushenbush.** That was the Treasury's opinion about it?

Mr. **Leffingwell.** And Congress' opinion.

Mr. **Raushenbush.** The section which you read was not on that one point, was it? There would be other sections there?

Mr. **Leffingwell.** There are other sections.

Mr. **Raushenbush.** That law, then, as we understand it—and I want your check on this—did not in any way prevent credits from being used for purchases outside this country, or for the purchase of foreign exchange?

Mr. **Leffingwell.** No; but there was a good deal of debate and talk about those things, and there was a clear preference on the part of the Treasury to confine the use of the proceeds of the loan, so far as it was practicable, to purchases within the United States, and to limit the expenditure of the proceeds for the support of the exchange, as far as practicable.

That latter measure was attempted by steadily creating a procedure, a pressure for a procedure, which took off the foreign exchange the method of financing commodities and provided for their payment here in dollars. There was a gradual shifting of the machinery of finance so as to reduce the amount which appeared as exchange, and to enable the foreign governments to identify the uses to which their expenditures were put.

The very large part, I think, Mr. Raushenbush, of the exchange purchases represented purchases of cotton in the United States, because cotton is one of the commodities which it was most difficult to isolate and handle otherwise than in the course of the ordinary routine of business.

Mr. RAUSHENBUSH. Were you in the Treasury really ever able to find roughly how much the British were paying for exchange, and how much was for cotton purchases?

Mr. LEFFINGWELL. You can answer that better than I, Mr. Rathbone.

Mr. RAUSHENBUSH. We were able to find, as I remember it, no Treasury split between the two.

Mr. LEFFINGWELL. Cotton and foreign exchange were pretty well mixed.

You have the report of the purchases to which these advances were applied, which is attached to the Annual Report of the Secretary of the Treasury for 1920?

Mr. RAUSHENBUSH. Yes, sir.

Mr. LEFFINGWELL. That gives an immense amount of detail which was very carefully prepared, immediately after the close of the war period, and it shows exchange and cotton purchases lumped together.

Mr. RAUSHENBUSH. And it is pretty hard to split.

Mr. LEFFINGWELL. And very hard to split.

Mr. RATHBONE. This is rather interesting. I am reading from an article which was published in Foreign Affairs in April 1925.

Mr. RAUSHENBUSH. By whom, Mr. Rathbone?

Mr. RATHBONE. By myself. I do not want to take the entire credit for the article, because it was made up in collaboration with various members of the War Loan Staff and the Assistant Secretaries, trying to explain to the public generally the theories on which the Treasury worked during the war.

> From the period January 1 to November 30, 1918, the purchases of exchange and for cotton during that period fell to about $296,000,000. During the same period the American exports of cotton to Great Britain, as shown by trade returns, amounted to about $290,000,000.

That is some indication, at least for that period, as to the proportion of the purchases of cotton which were taken care of through the exchange; that is, $290,000,000 out of $296,000,000. And the cotton purchases undoubtedly accounted for a very large portion of the advances which we made to Great Britain and which were used to peg the British exchange.

Mr. LEFFINGWELL. Mr. Chairman, Mr. Rathbone is very modest. May I offer the suggestion that his article on the foreign loans be submitted for the record? It was written in 1925, and by the man who was in charge of the Foreign Loan Bureau for so important a period, and it gives much the clearest exposition of the principles governing our foreign loans, and I am sure it would be useful to the committee.

The CHAIRMAN. I see no objection to its being received.

(The documents referred to were marked "Exhibits Nos. 2780 and 2781" and are included in the appendix on pp. 9206 and 9207.)

Mr. RATHBONE. I have made some notes on this copy, so that I can refer to it.

The CHAIRMAN. Do you have another copy?

Mr. RATHBONE. I have two other copies.

The CHAIRMAN. Let the copy be received for the record and properly identified.

Mr. RAUSHENBUSH. Mr. Leffingwell, as I remember those debates in Congress, there was a general impression given also, in addition to that which you have mentioned, that the Liberty Loan money would not be used, as I think some of the speakers on the floor used the phrase, "to bail out the bankers", or "bail out the foreign governments" that had been borrowing here. That was also a correct impression, was it not?

Mr. LEFFINGWELL. That is what I was trying to convey.

Mr. RAUSHENBUSH. That was in the debate.

Mr. LEFFINGWELL. That was constantly in the debate on the floor, and every time it came up about the same answer was given by the Chairman of the Ways and Means Committee and by the leaders on both sides of the House: "We hope that won't be done; we do not want it done, but we must leave it to the Secretary and the President to decide." And it was left, according to the terms of the bill unamended, and that is a fact, with full power to deal with the problems.

The CHAIRMAN. In running through the excerpts of the debate of that day, which you have passed up to the committee, I find a great deal of fear expressed by individual Members that these loans might be converted to the settlement of old obligations and the salvaging of credit for bankers who had privately invested, largely with the nations at war. So that there was that fear in that day. I notice Mr. Kitchin shared that fear to some extent, but yet was willing, as all were willing in that hour, to not jeopardize our chance of being really useful in helping win the war.

Mr. LEFFINGWELL. You have helped me, and that is exactly what I wanted to make perfectly clear, that this was a point which was very vigorously debated for several days, and the earnest criticism was made that something ought not to be done about these preexisting loans and that it was which led the Secretary of the Treasury to take the very restricted and limited action he did take with respect to these loans when they presented themselves in an acute form.

I do not want to anticipate your discussion of them, but it was that sense of hesitation and the wish to avoid it just as much as possible that led him to refuse point blank to pay off the demand loan, and led him to require their subrogation in respect to the securities for the two British loans.

Senator VANDENBERG. Would it be fair to sum up the whole thing, Mr. Leffingwell, by saying that it was the desire and the intention and the purpose of Congress and the Treasury that the proceeds of these new loans, Liberty Loans, should not be used to fund existing obligations unless you found yourself in the clash of irresistible circumstances which required it as a war measure?

Mr. LEFFINGWELL. I think that is a precisely correct statement of it, and then under such limitations as seemed the most practicable.

Mr. RAUSHENBUSH. And that was specifically——

Mr. LEFFINGWELL. One other thought which I would like to develop, if I may, Mr. Raushenbush, in your minds, because I think that this little preliminary exposition of the principles may help in the discussion of the details as we come to them.

We have spoken of the use of the proceeds of these loans for the purchase of obligations that were pre-existing, but the use of the proceeds of these loans is a term which might be itself too loosely accepted.

In the course of the war we became not merely obligated to provide dollars for the dollar requirements of the Allies, but the Allies became obligated to provide francs and pounds for the franc and pound expenditures of the United States. Roughly, I think the United States was obliged to acquire $1,000,000,000 worth of francs for the support of its armies in France. Roughly, we were obliged to acquire from Great Britain $450,000,000 worth of pounds for the use of our armies abroad.

Now, just to complete the parliamentary record, when the war was just over, and the Treasury applied to the Ways and Means Committee for a further grant of power, both with respect to borrowing and lending, the Chairman of the Ways and Means Committee, Mr. Kitchin, said, "How much has been lent? How much has been used of the proceeds of your loans to meet maturities?" And the answer was about $400,000,000. That was the figure at the end of the year just preceding.

In other words, the Chairman of the Ways and Means Committee said, "How much has gone for that?"—not—"Of course, you have not spent any money for this"—but "How much has gone for this?"

Mr. Rathbone, Mr. May, and I answered in a series of answers that it was not quite fair to say that $400,000,000 had been used for the payment of these maturities, because at that date the Allies had accounted for expenditures greatly in excess of the amount of our loans, and they had been possessed of the dollar equivalent of these francs and pounds, which was not in any sense the proceeds of our loans.

So that you cannot isolate the proceeds of the loans and say, "This much, of every dollar of the proceeds of the loans, went to pay off those maturities."

In another sense, you might very well say that only the dollars that were the proceeds of the francs and pounds they provided for us for the use of our Armies abroad went to pay those loans, or it would have been that way except for the fact that Mr. Rathbone kept such a close check on their expenditures here, and their bank balances here, that they never could accumulate balances big enough in this country to meet such an important maturity. Is that correct?

Mr. RATHBONE. That is correct. We did not allow them to put in a separate account the dollars which we paid, for example, for francs. That would build up a great big bank balance and required us to keep making additional advances of money to them. We said to the French, as an illustration, "You spend those dollars which you have a right to use to pay off your maturities, and then when the time comes that your maturities have got to be paid, we will advance you enough money to pay them, within certain limits."

Mr. RAUSHENBUSH. When was that understood, Mr. Rathbone—this thing which you have just stated—that you told the Allies that when their maturities came due they would be repaid?

Mr. RATHBONE. No such arrangement was ever entered into with the British. It was entered into with the French.

Mr. RAUSHENBUSH. As of what date? Do you know?

Mr. RATHBONE. I have a memorandum here which covers all that. I will be glad to read it.

Mr. Raushenbush. Could you just give me that date offhand? We are going to get into a good many details of this later.

Mr. Rathbone. March 1918.

Mr. Brown. Mr. Rathbone, there is only one point on which I want to get the record clear. When the French and the British required dollars in this market, they got them on loan. When the United States required francs and pounds, those were not offset against the loans, were they, but they were bought with new cash advances?

Mr. Rathbone. That is true; but, of course, they did reduce the amount that we would otherwise have loaned because if France, taking France again as an example, had $50,000,000, say, here, that they had received from us for the purchase of francs, which we required for our Army expenditures in France, we would not loan them another $50,000,000 until they had spent that $50,000,000. So that, in effect, it did reduce the amount of our loans.

Mr. Brown. Yet, if we were to follow the offset theory, we could say that the funds with which we purchased francs could have been applied to two kinds of indebtedness. One, the indebtedness to the Treasury, and the other the indebtedness to the bondholders. It was applied to the indebtedness of the bondholders and not to the indebtedness of the Treasury?

Mr. Rathbone. You could say that, but there were two parties that had to be consulted. One was France. France did not have to say that the French Government would give us francs for our dollars. They could have said, and suggested several times, that we buy our francs over the exchange, that we make the agreement with the Bank of France. Was not that also suggested?

France had to be consulted. We had to get those francs. We had to support our Army over there, and toward the end of the war there were one or two million men over there who had to be taken care of. So that we had to reach an agreement with them.

France maintained, with a good deal of force, that the dollars which we gave them for the francs—we did not borrow the francs from them but bought them, and they had the dollars, and they could use them for any purpose they pleased. And in the summer of 1918, when the Allied cause did not look any too good and the Germans were advancing on Paris, they made a proposition, embodied in a letter from Monsieur Clemenceau to the Secretary of the Treasury, that that money should be put aside, that it should remain the property of France. As it was the property of France, that is, the dollars which they got from selling us something, then they could use it for any purpose they pleased, either during the war or after the war.

Mr. Raushenbush. Mr. Leffingwell, coming back to your statement about the firm attitude the Treasury took toward the matter of not advancing United States Treasury money for paying off the overdrafts and the like was not that backed up also by the fact that the then Secretary of the Treasury had gone before the Ways and Means Committee and definitely said: "Here, we are not going to use it for this, that, and the other"?

Mr. Leffingwell. I have already said that I was not in the Treasury at that time, and just what was in the Secretary's mind about the conversation with the Ways and Means Committee in executive session, there is no record of it whatever. The only record of it is in the debates on the floor of the House, in the course of which it is apparent that this question had been discussed, and I take it that the only record that exists today of it anywhere is that contained in the report in the Congressional Record of debate on the first Liberty Loan bill.

Mr. RAUSHENBUSH. Mr. Lamont, did you not get the impression, that is, in conversations down at the Treasury, that those pledges, if you will, had been made very clearly? We find in your exhibits, volume III, page 1379, a memorandum dated July 30, 1917.

Mr. LAMONT. Yes, sir.

Mr. RAUSHENBUSH. In which there is a paragraph, and you are apparently asking the Treasury to pay off your demand loan.

Paragraph B reads:

> Even if the Treasury had spare cash on hand, which it didn't, it would prove very awkward to turn over money for this particular purpose, because McAdoo, in appearing before the Senate and House Committees originally, in connection with the legislation for the $3,000,000,000 loan to the Allies, had assured them that any part of this sum to be advanced would be for fresh purposes and not to take up existing obligations. He may have made a mistake, but that was over the dam now. He wanted to have us appreciate his viewpoint and try not to force him to undertake a step which would be awkward for him.

Mr. LAMONT. Mr. Raushenbush, with your permission, I think it would be well to introduce into the record that entire memorandum of mine covering the paraphrase of my conversation with Secretary McAdoo at that time, July 30, 1917.[1]

Mr. RAUSHENBUSH. I do not have it in front of me. I would be glad to have you read it.

Mr. BROWN. We will come to that whole memorandum later.

Mr. LAMONT. That may be, Mr. Brown, but inasmuch as Mr. Raushenbush has been good enough to allude to it, I think this might be a very appropriate time to read it in, because just reading one phrase out of it does not give the whole picture.

Mr. RAUSHENBUSH. I was not particularly interested in getting the whole picture as regards the demand loan for the moment, because we will get into that, but I was interested in Mr. Leffingwell's remark that he thought there had been no record made on it, and you, in that paragraph, did seem to be making a record on it.

Mr. LAMONT. Certainly. I may say here, that when I tried to get the Secretary of the Treasury to consider taking up the British demand loan, that is, action taken by the American Treasury, he answered that it might be awkward for him because of what he believed he had stated to Members of Congress. That is all.

Mr. LEFFINGWELL. Mr. Raushenbush, perhaps I have misled you. Undoubtedly the Secretary felt that there was a parliamentary commitment, but the nature of the parliamentary commitment I was trying to explain by reference to debates on the floor of the House, which is the only record that the Treasury had or ever has been able to find of that matter.

I do not think there is any real difference between us except the thing actually done was to confer upon the Treasury this power, with the old expression of the hope that it would not be exercised in regard to foreign loans. And I think, as Senator Vandenberg said, what it really amounted to was it was highly desirable to avoid taking up these maturities, and it would not be done unless an emergency arose which seemed to make it impossible to avoid it.

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[1] Entered later as "Exhibit No. 2824", see infra, p. 9027.

I think that is the practical interpretation which was given to the parliamentary commitment, both by the Secretary and by Congress and by the Ways and Means Committee.

Mr. RAUSHENBUSH. And the Treasury, as we gather from correspondence between the assistants there, thought, as you say, that was a parliamentary pledge, not only with regard to the paying off of previously incurred indebtedness, but also in regard to our financing the purchases of the Allies outside of this country. Is not that correct?

Mr. LEFFINGWELL. There was unquestionably a strong desire to avoid financing purchases outside the United States, and what was done in that regard is just explained, I think, as carefully and accurately as any part of the war history in Mr. Rathbone's article, of which we have found a copy and put it into the record.

The principles which governed it were expounded by him, and in a way that is as precise as can be. But that was the objective, and every measure that we adopted was directed toward limiting to the utmost the loans for the purpose of purchases outside the United States. However, the burden of financing the inter-Allied purchases outside the United States did ultimately fall on the Governments of the United States and Great Britain, which shared that effort in accordance with formulas which were worked out between them.

Mr. RAUSHENBUSH. Yes. We find here a memorandum later on, signed by Norman Davis, referring to this appearance before the Ways and Means Committee at the time of the passage of the First Liberty Loan Act, covering that, so that I thought that was pretty well understood in the Treasury.

You see, Mr. Leffingwell, what is of interest here, and you perhaps answered it in your reply to Senator Vandenberg, is that a chain of circumstances got started, financial circumstances in this case, and then it gets impossible for any single set of individuals to withstand the thing, once the winning of the war is at stake. That is true, is it not?

Mr. LEFFINGWELL. I think that is not quite the way I should put it, if you turned yourself back. We have been here with you for 2 weeks thinking about the events which led up to the war.

I am asking you to look at these events from the eyes of a man who suddenly found himself commandeered to see how in thunder you can win the war.

Mr. RAUSHENBUSH. Surely.

Mr. LEFFINGWELL. The whole scene changes. It is not a question of standing up against something; it is a question of making your financial policies such as conduce most effectively to the prompt winning of the war, to shortening its duration, to bringing every dollar and every commodity to the service of the men whose lives are at stake on the front.

From that moment, why, your whole problem changes, and you concentrate on the most effective thing to shorten the interallied effort.

Mr. **Raushenbush.** Yes; and this has no academic interest at all. The reason we are going into this is under the head of review. Here was a nation, and as to governing the traffic in arms at that time and at present, it had no provisions in it stopping in any way the whole movement of loans and credits.

So that we have a possibility that in case we ever get into war again, the same sort of circumstances, both before and after we got into the war would take place. And the questions here directed are toward that end. After we got into the war, did we not have to do exactly what you said: Not in any way, even though we had pledged ourselves not to do this, that, and the other, to do anything to impede things and to prevent carrying out the objective, the winning of the war?

So that if that is true, and if you keep on answering that the way you have to Senator Vandenberg and otherwise here, we can see the way open to what would happen in the next war.

Mr. **Rathbone.** I do not think we did anything that was contrary to the pledge that was made by and on behalf of the Treasury.

Mr. **Raushenbush.** The pledge here referred to by Mr. Davis that the Ways and Means Committee had been informed that it was intended the loans authorized to be made to foreign governments would be made only for the purpose of enabling them to make purchases in the United States and not for purchases elsewhere, or for commitments in the United States incurred before our entrance into the war.

Actually, money was paid out for both those purposes, was it not?

Mr. **Rathbone.** Money was paid out. It is hard to say whether it was paid out from the American loans or from the dollars that belonged to the belligerent nations.

Mr. **Raushenbush.** It did not come from the Treasury?

Mr. **Rathbone.** It did not come from the Treasury. Of course, you are reading a memorandum, Mr. Raushenbush, to whom?

Mr. **Raushenbush.** To the Secretary.

Mr. **Rathbone.** They were informal memoranda. They were not supposed to be anything but interoffice communications.

Mr. **Raushenbush.** We will have more of them as we go on.

Mr. **Rathbone.** They are all that way.

Mr. **Leffingwell.** Let me explain it, because I do not think you have quite what is in our minds.

Here was, at least to my mind, the fact that the Secretary had been before the Ways and Means Committee in an executive session. Out of that executive session emerged a perfectly clear and explicit draft of a bill. That bill was conducted through the House by the same Ways and Means Committee. What was the nature of this commitment? An explanation was clearly stated on the floor of the House. When that was all done, the bill was passed, and they left the hands of the Secretary of the Treasury free in this regard, with the approval of the President, and left the hands of the Allies free consciously.

However anxious the Secretary was to carry out the wish as distinguished from the crystallization of the program in the law, the fact remained that the law must be his guiding star, and not some memorandum that anybody wrote about what he had hoped he would be able to accomplish when he laid the bill first before the House.

It was fully explained and fully debated. The whole nature of the problem was explained, and the leaders of the House and the Chairman of the Ways and Means Committee repeatedly, time and time again, said, "We must not tie his hands. We hope this will not be done. We must not tie his hands", and his hands were not tied. The bill was passed practically unanimously.

Mr. RAUSHENBUSH. The point is of some interest, not too much, but you, yourself, I believe, Mr. Leffingwell, in a memorandum I have here for the Secretary, pointed out that the circumstances, this pressure of having to finance the Allies in everything they apparently incurred for the war, whatever it was, these circumstances had piled up so that you were suggesting to him that when he went before Congress in connection with the new bond bill—let me read that paragraph [reading from "Exhibit No. 2782"]:

> I am disposed to suggest that when you go before Congress in connection with the new bond bill you should make a brief statement of the change in the situation which has developed since the first bond bill, which has made it necessary for us to do two things not then contemplated; first, to provide a certain amount of finance outside the United States; and, second, to meet the maturities of the Allied Governments on obligations in the United States incurred before the United States entered the war. I am confident that the change in the war situation, our own increasing activity, and the great enthusiasm of the people will make this easy to do, and, the parliamentary pledges once out of the way, we would be free to deal with the situation as it arises from time to time.

That seems, by the way, in passing, to be something of an answer to Mr. Rathbone's remark that perhaps those two things were done. You seem to state clearly that they had to be done and were done. Is not that correct?

Mr. LEFFINGWELL. I am not quite sure what you mean by what had to be done and were done.

Mr. RAUSHENBUSH. The things you wanted the Secretary to tell Congress now should not be in the next bond bill, because they could not stand out against doing them, first, to provide a certain amount of finance outside of the United States, and, second, to meet the maturities of the Allied Governments on obligations in the United States incurred before the United States entered the war.

So, Mr. Rathbone and Mr. Leffingwell, in this memorandum you seem to think there was not much question that we had been forced to do those things, that that money question you raised was not the important one.

(The document referred to was marked "Exhibit No. 2782" and included in the appendix on p. 9221.)

Mr. RATHBONE. I think that memorandum of Mr. Leffingwell was not suggesting to the Secretary that he get any additional authority, because he had the authority, but to make it plain to the Ways and Means Committee that the exigencies of the war had required in the first place the United States to some extent to finance neutral purchases, and also to some extent to advance money to take up maturities.

The CHAIRMAN. And at once was also an acknowledgment that there was a parliamentary situation that was at least a little bit embarrassing, that ought to be removed.

Mr. Rathbone. I think Mr. Leffingwell fully answered that when he said that whatever parliamentary pledge was made to the Ways and Means Committee it was not put in the bill, the debate which Mr. Leffingwell has read showed that the Congress understood that the Secretary of the Treasury was not limited in those respects.

Mr. Leffingwell. And as to the suggestion that the matter be explained to the Ways and Means Commitee, of course the Secretary, like all Cabinet ministers in those days, maintained with the Chairman of the Ways and Means Committee, frequent and continuous communication. I looked over the record and I find that at any rate 6 months or so later in connection with the Victory Loan bill, which I have spoken of before, these points were brought out fully, and as I explained, Mr. Kitchin said:[1]

> Some of the committee, and I am among the number, would like to know, if you can tell us, how much of the loans we have made to the Allies (and we have made about $8,000,000,000 in round numbers) was used by the Allies to pay their bonds, notes, or indebtedness to others than the United States.

That shows that the suggestion which I made in the memorandum you have just read, Mr. Raushenbush, was in some manner carried out, and that the Chairman of the Ways and Means Committee was aware and the committee were aware that these loans were being paid to some extent out of the proceeds of our loans.

Then Mr. Rathbone, Mr. May, and I explained that the amount was $394,000,000 on December 31, at the end of the year, but that as of December 31 our net loans were $7,685,000,000-odd. This is Mr. Rathbone:[2]

> And they had accounted to us, for expenditures out of our loans and out of their other resources, for $9,200,000,000.

Then Mr. May said:

> That is $1,600,000,000 more than the loans we have made.

On that explanation the committee was satisfied and introduced the Victory Liberty Loan bill, which ratified the lending power, and somewhat extended it, to finance purchases. Furthermore, it is evidence of confidence in the Secretary of the Treasury and in the conduct of this affair by the Treasury of the United States, and it shows that there was complete acquiescence by the Ways and Means Committee in the course which the Treasury had adopted.

Mr. Raushenbush. Mr. Lamont, did you have the same impression, that there was no new legislation needed there to make it possible for the Treasury to freely repay part of the private indebtedness that had been incurred before our entry into the war?

Mr. Lamont. Just say that again, will you, Mr. Raushenbush?

Mr. Raushenbush. Will you read it, Mr. Reporter?

(Question read.)

Mr. Lamont. I see that in the record here there is some allusion on October 2, 1917, in a letter that I wrote to Lord Reading about "The fresh legislation spoken of under this paragraph has now been accomplished." I do not recall the circumstances at all.

Senator Barbour. Why do you use the word "freely", Mr. Raushenbush, because it seems to me the whole burden of the argument was that it was not that, that there was a necessity, that where there might be occasion it would be permitted.

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[1] Entered later as "Exhibit No. 3017", see appendix, p. 9433. See also infra, p. 9145.
[2] Ibid.

You may have a reason for it. I do not mean just to pick on a word.

Mr. RAUSHENBUSH. The answer is largely in the very paragraph Mr. Lamont was reading, out of the memorandum to Lord Reading, which reads, Senator, as follows [reading from "Exhibit No. 2783"]:

> The fresh legislation spoken of under this paragraph has now been accomplished, and there is no awkwardness in lending to Great Britain and to the other Allies for any purpose, past, present, or future.

So I was trying to get at this, that he thought there had been awkwardness, and now it was a matter of being able to lend freely. The only point in this, as I get it, Senator, is that the financial matters that had been started before we got into the war immediately got tied up, once we entered the war, with all our own interests and our own Liberty Loan financing and the like—we will go into that in some detail a little later—and all the expressions of what it would be good to do and what it would not be good to do, and just could not withstand the pressure of our own war financing.

So the Treasury was very firm about a lot of these things and wanted to stand out against paying off this demand loan and paying off private indebtedness of various kinds of the Allied Governments.

The CHAIRMAN. And the Treasury did stand off for a long time.

Mr. RAUSHENBUSH. Yes; for a long time.

It is simply this chain of circumstances that had gotten started long before that perhaps in the end made it impossible for us to do anything in any way different than what was done. So here is just one letter, where we go from limitations on paying off private indebtedness to doing it freely.

Mr. LEFFINGWELL. It is not really a chain of circumstances. It is one perfectly simple thing, that is, that the Government of the United States began to finance the war itself and closed the market to every other operation.

Increasingly its barriers were raised because it became necessary in order to float a $2,000,000,000 loan, then a $3,000,000,000 loan, then a $4,000,000,000 loan, to create a capital issues committee and to close the capital market to every other nation whatsoever.

Mr. RAUSHENBUSH. The thing that is interesting in connection with that is that all the way through the Secretary of State and some of the assistants did not think so. We will get into that later. But they constantly, if you remember, kept urging the British and the bankers not just to throw their burdens on the Lord, as it were, I mean, throw the burdens on the Treasury and rest easy, but to get busy and do some refunding. That was running all the way through. So that statement you just made with such positiveness, that it was just the closing of the capital market that changed everything, ought to be examined a little more closely, I think, as these things come along.

Mr. LEFFINGWELL. I think what you are speaking of goes to confirm what I said, because what the Treasury did in each instance was to make the most careful and painstaking inquiry about what would be the terms on which financing could be done, and in each case it found that the actual fact was that the preemption of the capital market by Treasury issues had created a situation in which the private financing of the maturity of these loans could be done only on terms so disadvantageous to the credit of the Allied countries and so disadvantageous to our own bond market, that the Treasury could not tolerate it.

Mr. BROWN. Just on the question of the complete closure of the market, it was possible to keep a large number of British Treasury bills afloat, and it was possible to have a small number of French Treasury bills.

Mr. LEFFINGWELL. There was a practically complete closure of the market for public issues, and the Treasury was able to make it possible to maintain a moderate amount of Treasury bills in the hands of banking institutions, but the practical result was that during that war period public issues were nonexistent, except those that were passed for essential war purposes by the Capital Issues Committee, and got sort of a special status in that connection.

Mr. RAUSHENBUSH. In that very connection, Mr. Leffingwell and Mr. Rathbone, did you people in the Treasury see any connection between the amounts we were advancing to the Allies and the territorial aims of the Allied Powers?

Mr. RATHBONE. Before you leave this memorandum that you referred to, I just want to say that of course the Treasury did not have any knowledge of what Messrs. Morgan & Co. advised Lord Reading as to the effect of legislation, and did not care what Messrs. Morgan & Co. advised Lord Reading as to the effect of legislation.

We knew a great deal more about it than either J. P. Morgan & Co. or Lord Reading.

(The document referred to was marked "Exhibit No. 2783" and is included in the appendix on p. 9221.)

Mr. RAUSHENBUSH. That is nice. The question was, however, addressed to Mr. Lamont as to what he remembered about that.

Mr. LAMONT. You see, Mr. Raushenbush, I used in that memorandum to Lord Reading exactly the same phrase that I used in my talk with Mr. McAdoo a few months previously. I just referred to the awkwardness; that was all. When he talks about "fresh legislation", I do not know what further legislation, if any, had been passed. I did not follow that. I do not remember that. Am I right? You are talking about the pressure that seemed to be exerted all the time. Did I not understand Mr. Leffingwell to say a moment ago that of the 7 or 8 billion dollars advanced to the Allies, only 3 or 4 hundred million were actually used to take up preexisting obligations?

Mr. LEFFINGWELL. That was the amount here at the end of December 1918. In the end it amounted to about $638,000,000.

Mr. LAMONT. Of course, the actual specified amounts involved were not very considerable compared to the total, were they?

Mr. RAUSHENBUSH. The total at that time was not so large, either.

Mr. LAMONT. Yes; $7,000,000,000, Mr. Leffingwell said.

Mr. RAUSHENBUSH. That was at the end of the war.

Mr. LAMONT. No; that was in 1918.

Mr. RAUSHENBUSH. That was in 1918, toward the end of the war.

Mr. LAMONT. It ran up to $10,000,000,000 later, as we all know.

Mr. RAUSHENBUSH. We are still in the summer of 1917.

SUPPORT OF ALLIED WAR AIMS THROUGH UNITED STATES ADVANCES

Mr. **Raushenbush.** Coming back to the question before Mr. Rathbone made his remarks, could you answer that, either of you gentlemen? The question was whether you gentlemen in the Treasury saw at that time any connection between all this financing we were doing for the Allies and the war aims of the Allies and their territorial desires at the time.

Mr. **Leffingwell.** When you speak of at that time——

Mr. **Raushenbush.** This was in early 1917, after we had gotten in.

Mr. **Leffingwell.** I do not remember that I had anything to do with foreign lending in the summer of 1917, and I remember that Mr. Rathbone was not in the Treasury then. I do not suppose at that time we had formed any opinion, so far as I can remember.

You remember in answer to your first question, Mr. Raushenbush, I mentioned that I was counsel in connection with the Liberty Loans at that time, and while I was very familiar with what was going on in the Treasury, I am pretty sure that I was so busy working on Liberty Loan circulars and one thing and another that I did not have time to apply my thought to any problem so much the problem of the Foreign Office and so little the problem of the Treasury as the territorial aims of the Allies.

Now, when it came along later on, it may possibly be that I began to think about those things. Correct me, Mr. Rathbone.

Mr. **Rathbone.** I do not think we did. The Treasury was there to make loans for the purpose of trying to win the war. The war was very far from won until pretty late in 1918. I do not believe we knew the territorial ambitions of the Allies, and I do not think it was any of our business. Is that right?

Mr. **Leffingwell.** That is correct.

Mr. **Raushenbush.** Do you see now any connection between financing a war that has large territorial ambitions on the part of the people you are financing and a war which does not have that? It takes less to finance the latter, does it not?

Mr. **Rathbone.** I do not think that I am an expert to give views on questions of that sort. I am here to tell you about the Treasury financing.

Mr. **Raushenbush.** We thought it was pertinent. You do not see any connection there?

Mr. **Rathbone.** We were practically told by Congress to make loans to the Allies to win the war. It was up to Congress and the foreign offices to determine whether we wanted to go in the war or whether we looked with favor or disfavor on the ambitions of the Allied Governments.

And it was very uncertain at that time whether we were going to win the war or not.

Mr. **Raushenbush.** The Secretary of the Treasury was interested in the matter, apparently, and I wondered what other information you could give us.

In a dispatch to the American Ambassador at London on June 30, 1917, he said [reading]:

> I have the honor to request that you be good enough to indicate to me—

* * * * * * *

(9) In the same connection it would be desirable to know whether any territorial determinations or engagements of any kind have been entered into, with the understanding that they should be put in effect in case military successes of those engaged in war against Germany would permit, and, if so, what are such engagements?

The document referred to was marked "Exhibit No. 2784" and is included in the appendix on p. 9222.)

Mr. RAUSHENBUSH. So, while this comes from the Treasury, you do not say that you were not consulted in these matters?

Mr. LEFFINGWELL. I do not remember it.

Mr. RATHBONE. We were not there.

Mr. LEFFINGWELL. I was there but you were not; but I do not remember it, Mr. Raushenbush.

Did you ask Mr. Crosby about that, because, as you know, he was the assistant secretary at that time.

Mr. RAUSHENBUSH. Yes; we did, but I cannot testify as to what he told us. It was very interesting.

Then the Secretary of the Treasury, Mr. McAdoo, wrote the President on July 17, 1917, in a way that seems to contradict somewhat as to what you were saying, Mr. Rathbone, that the Treasury was not interested in these matters:

DEAR MR. PRESIDENT: I hand you herewith tentative draft of a letter which, in my judgment, should be written now to all of the Governments borrowing money from the United States. This is intended to convey to you the idea I have in mind and is not to be taken as the final form in which I think the letter should go. As it attempts to define a general policy of our Government, I would not, of course, think of sending it until it has your approval. Will you be good enough to revise the letter to suit your own views, if you think it should be sent, and return it to me at your earliest convenience? It seems to me of very great importance to put ourselves on record as outlined generally in this letter.

Cordially yours,

(The document referred to was marked "Exhibit No. 2785" and appears in full in the text.)

Mr. RAUSHENBUSH. Then enclosed with the letter to the President was a [reading heading of "Exhibit No. 2786"]—

Draft of letter suggested to be sent by the Secretary of the Treasury to representatives of the various powers with whom he deals in making loans under the act of Congress approved April 24, 1917.

Anything you would care to comment on this would be gladly accepted.

Mr. RATHBONE. The only comment I would make is that the Secretary of the Treasury was a member of the Cabinet. The Cabinet of the Government of the United States, of course, was interested in matters of that character. He did that more as a Cabinet official, I should think, than as Secretary of the Treasury. The Treasury, as I said before, was interested in making loans to win the war. The Treasury itself—and by that I mean the operations of the Treasury in regard to the lending and the borrowing of the money—was not concerned with the ambitions of the Allied Governments. The Cabinet; yes.

Mr. RAUSHENBUSH. You are drawing a very interesting line between the Treasury as the Treasury and the Treasury head as a Cabinet member. We gather from this that Secretary McAdoo was very interested in winning the peace. You have said that the Treasury, as such, was interested in winning the war. If you will let us go on we will see a difference.

Mr. **Leffingwell.** Do you want to read this memorandum?

Mr. **Raushenbush.** I want to read it if I can get to it. I have read the heading [reading "Exhibit No. 2786"]:

> In view of the widely diversified uses to which, directly and indirectly, the moneys loaned to your Government by the United States Government may be put in the existing war against Germany, it seems desirable to point out the fact that the rendering of financial assistance to your Government under the provisions of the act of Congress approved April 24, 1917, should not be construed as an approval or disapproval by the United States Government of any particular national objectives which your Government may have in view, or which in the future may be claimed by it as having been gained by successful military operations. In exercising the discretion reposed in me by the act of Congress above mentioned, the President desires that I should be guided by the principle that sums lent shall be used, as far as possible to the defeat of the German arms and to the accomplishment of such aims as this Government may have announced or may later announce in regard to its participation in the war against Germany. This statement is, on the other hand, not to be construed as in any way trammelling your Government in conducting its military operations; it is intended to free the loan transactions from any suggestion of the acceptance or rejection on the part of the United States of aims which have not been discussed and approved by it.

(The document referred to was marked "Exhibit No. 2876" and appears in full in the text.)

Mr. **Leffingwell.** What was done with the memorandum?

Mr. **Raushenbush.** I will go right ahead with that.

The **Chairman.** What was the date of the memorandum?

Mr. **Raushenbush.** That was sent with the letter of July 17, 1917, to the President.

Mr. **Leffingwell.** In other words, it is a letter to the President, which rather fits with what Mr. Rathbone was saying: It is a discussion between the head of the Treasury and the head of the Government, so far.

Mr. **Raushenbush.** Then on August 11, 1917, there is a reply from Mr. Frank L. Polk, Counselor for the Department of State, to Mr. McAdoo [reading "Exhibit No. 2787"]:

> **My Dear Mr. McAdoo:** I have discussed the attached draft letter with the Secretary and he feels very strongly it would be a mistake to send anything to our associates in this war at this time. He quite sees your point, but feels if we say anything we may raise awkward questions of policy and it would be better not to have anything on record or have any discussion on the subject at this time.
>
> I return the letter, as perhaps you may care to discuss the matter with him.
>
> Yours sincerely,

(The document referred to was marked "Exhibit No. 2787" and appears in full in the text.)

Mr. **Leffingwell.** That is further confirmation of Mr. Rathbone's comment that this was a discussion between a Cabinet member and the President.

The **Chairman.** Let us get this clear:

Are you trying to make the point that Mr. McAdoo was not representing the Treasury in these transactions or in these memoranda?

Mr. **Rathbone.** In which transactions?

The **Chairman.** These memoranda that we have been reading here. Is it your point that Mr. McAdoo was not speaking for the Treasury?

Mr. **Rathbone.** He was speaking, of course, as Secretary of the Treasury and a member of the Cabinet.

Mr. **Raushenbush.** We are not interested simply in the mechanism of the Treasury. The larger question is how you use the Treasury to accomplish or not accomplish certain aims of either keeping the country stable or winning the war or winning the peace.

Mr. **Leffingwell.** Mr. Raushenbush, I want to help just as much as I can, but we are a little weak on this. You understand Mr. Rathbone was not there. So far as I can recall, it was outside my province at that time to have anything to do with what were the policies of the Secretary and of the State Department and the President in relation to such matters as are covered by this memorandum. I do not recall having given any thought to them myself, and I know Mr. Rathbone did not have the opportunity.

Mr. **Rathbone.** No.

Mr. **Raushenbush.** Perhaps we would not have gotten into this discussion unless there had been a certain insistence on Mr. Rathbone's part that they were this and this. Secretary of the Treasury McAdoo came back apparently on August 14, 1917, and made the point again in a letter to Secretary of State Lansing, as follows [reading "Exhibit No. 2788"]:

> Dear Mr. Secretary: Herewith I return Mr. Polk's letter of the 11th instant, together with copy of my letter to the President of July 17, enclosing the memorandum in relation to the credits to foreign governments, which the President, in turn, handed to Mr. Polk. I feel strongly that a notice embodying the substance of what I suggested to the President should be given to the various powers receiving loans from this Government to the effect that the making of such loans by our Government is not to be construed as committing this Government in any way, directly or indirectly, to the national objectives which the various powers have in view. If we fail to do this we may be confronted at the peace conference, if we have to raise an objection to the demands of some of the Allied Powers, with the claim that as we furnished money for the purpose of enabling the powers to prosecute the war to a successful conclusion, we tacitly consented to or acquiesced in the national objectives they had in view. My own conviction is that such a statement by this Government will not prejudice its interests in any way, while a failure to make such statement might eventually prove decidedly prejudicial.
>
> Faithfully yours,

(The document referred to was marked "Exhibit No. 2788" and appears in full in the text.)

Mr. **Leffingwell.** This was to the Secretary of State?

Mr. **Raushenbush.** This was to the Secretary of State, taking the question up all over again. He would not let it be dropped. He saw its importance and connection very clearly.

Would you not agree, Mr. Leffingwell, now that you have heard those memoranda, that it is possible for a governmental official to conceive of Treasury operations including loans as being a weapon and a bargaining power in peace aims?

Mr. **Leffingwell.** I should think that the conclusion the reading of those things led me to was that the Treasury got a little outside its own bailiwick in their proposal and was obliged properly to drop it by the State Department. It was really outside our sphere, and we certainly in my time, so far as I can recall, never as a Treasury matter, gave any consideration to those things.

You correct me, because you have the records, and I may be wrong. Can you, Mr. Rathbone?

Mr. **Rathbone.** No, not at all.

Mr. **Leffingwell.** That we did anything. What happened in relation to that was that Mr. Crosby was sent abroad to coordinate inter-Allied purchases and finance, and it was done purely from the point of view that Mr. Rathbone has outlined here, how the Treasury could best make its loans in a way to help win the war. In our day, I do not recall that we ever gave any thought to such questions as that until, of course, the Peace Conference brought them into the minds of everybody.

Then it was not really a Treasury matter. I imagine this was a little bit wider field than the State Department thought the Treasury ought to concern itself with, and it was dropped. Is not that what happened?

Mr. **Raushenbush.** As far as interdepartmental etiquette goes, Mr. Leffingwell, if that is important to you, perhaps the Treasury was saying that "Here is something we are doing and the Treasury is important to the rest of the Government." It seems to me that is a very intelligent thing for it to say, among other things.

Mr. **Leffingwell.** Oh, yes; it was very intelligent. The Treasury is always intelligent.

Mr. **Raushenbush.** And that loans or the absence of loans have a great deal to do with our foreign policy.

You have been here for the last 2 weeks and have heard us bringing out what we could to show that the trade in munitions was important to the country and affected both the State and Treasury Departments and the welfare of the country.

Would you not agree, by the way, in passing, with Mr. McAdoo's foresight, that he saw that unless we said to these people, our allies, that "We are fighting this kind of a war; you may be fighting a different kind of a war for different purposes, but we would like, if you please, to have our money devoted to our purposes rather than to any of yours that are different"—that was foresight, was it not?

Mr. **Leffingwell.** I think Mr. McAdoo was a very great Secretary of the Treasury, and he had great vision and penetration, but in this case I would say that my experience in the Treasury was that that was a fear which was not warranted by subsequent events. What we were concerned with and what the Allied Governments were concerned with was to get this war won, and it was so serious a business that the division of the territorial gains afterward was a matter for the peace treaties.

Mr. **Raushenbush.** Well, now, let us comment on that. You remember that Congress itself decided to reject the Treaty of Versailles. Congress rejected it. Congress would not ratify the Treaty of Versailles, which was a product of the war aims of everybody, including ourselves, in a way.

Mr. **Leffingwell.** I do not think I made myself clear. What I was trying to say was that my experience in the Treasury showed that the war was so grave and difficult a business that the Allies and the United States could only concern themselves with the business of getting it won until November 1918.

I do not think it ever was a matter of thought in the Treasury after I became acquainted with these problems, or a matter of any serious thought, that the Allies were borrowing money for any other purpose than to increase their military effort and conduct the war as effectively as possible.

The **Chairman.** You would not insist, would you, that our only purpose in entering the war was to help win it? Were we not looking farther ahead? Were we not contemplating the results of that war and the peace that could be afforded after it was over with?

Mr. **Leffingwell.** I was not venturing an opinion about the purpose for which we entered the war. I was speaking about the purpose for which we carried on the war. Those are two very different things. While I was, as a private citizen and a lawyer back in New York, vastly interested in the course of events which led up to the war, I can only testify here concerning the course of events after we were in the war. I am trying to answer that I believe it became clear to the Secretary of the Treasury, who I think was very wise to envisage all possible contingencies, and to his associates, that the problem that the Treasury had to face was to make the dollars they could raise as effective as possible towards the winning of the war, both through our own American effort and through loans to the Allies; and that we were not preoccupied in my time or during the period when I was familiar with these things, with the question of what the Allies were going to do after the war was won.

We were very much preoccupied about the question whether the war was going to be won.

Mr. **Raushenbush.** Yes, of course, and the questions addressed to you are less as a Treasury official interested in the mechanisms of exchange and the like, but as a governmental official wondering why you are doing this and that. Here comes along the Secretary of the Treasury at the time and becomes something more than a Treasury official, he becomes a governmental official wondering why the mechanism is working, and he implies here the financing we are doing for the Allies may, if handled one way or another, change the war aims which we do not happen to agree with, and we should let these Allies know that if we do lend them money, it does not necessarily mean that we underwrite all their terms.

You remember, Mr. Leffingwell, two or three things in this connection, probably, from your general connection and acquaintance with things: That President Wilson thought that all these loans we were making more or less put the Allies into our hands financially. There was some letter of his to Colonel House that has been introduced into the record to that effect. He thought they would be under such obligation to us that they would develop the kind of peace that we wanted.

Mr. **Leffingwell.** Did he?

Mr. **Raushenbush.** He did.

The **Chairman.** Yes; he did. That is a matter of clearly-established record.

Mr. **Raushenbush.** He thought that. So we might get into another war with the same belief that this is the way the mechanism would work, that once we took over loans and credits, and so forth, we would have a weapon in the peace.

Secretary McAdoo, with what seems to me remarkable foresight, away back here in early 1917, was saying something different. He was saying here: "We may be financing the kind of a peace we do not particularly want, and we can use loans and credits as a weapon.

With the Morgan witnesses on the stand we have been going into that at a good deal of length in the previous times as to whether embargoes were not weapons, and whether refusal to lend and refusal to extend the credit were not weapons of a kind in the international situation.

Here again there seems to be a very clear recognition by the then Secretary of the Treasury that that was so. That is the point of that.

Let me finish this:

Mr. Lansing writes there to Mr. McAdoo on August 20, 1917 [reading "Exhibit No. 2789"]:

> Dear Mr. Secretary: In view of your letter of the 14th sending me the correspondence in relation to a proposed letter to be sent by you to the representatives of the powers to whom money is being loaned and your opinion that a notice should be given them such as the one you propose, I have gone over the matter very carefully again, and I am more firmly convinced than ever that such a communication would be a grave mistake.
>
> The same argument which is urged in regard to loans might be advanced in regard to the employment of the embargo, the cooperation our naval vessels about the British Islands, the presence of our military forces in France, and similar active aid of this Government. It seems to me that it is much wiser to avoid statements of this sort, which might be misconstrued. On the other hand, I am not at all afraid that any of the powers will attempt to construe our silence into acquiescence in the national objectives of the various countries. But, even if it should be considered out of abundant caution to make our position plain, I think that it would be unwise to do so until there is some evidence that such a claim may be made. There is no evidence of the sort now.
>
> Faithfully yours,

(The document referred to was marked "Exhibit No. 2789" and appears in full in the text.)

Mr. **Raushenbush.** You see how his statement reads that no claim has been made that our advancing the money is in acquiescence in territorial objectives of other countries.

Mr. **Leffingwell.** For once the State Department was right and the Treasury was right. It could be so arranged and was not used as an evidence of our acquiescence in anything.

Mr. **Raushenbush.** Yes. I forgot to call that to your attention when I was speaking of President Wilson's feeling that we had the Allies in our hands as far as the peace goes, because they owed us all this money. If you follow through the letters which I believe were put in the record by Senator Clark, from the high commissioners of finance in England and France—I cannot give you the number of the exhibit, but it was last Wednesday, when we were having our hearing—they said pretty clearly, "Here the United States has to loan us money to keep their trade going"—that was the loans and credits policy—"and then has to protect the money."

I wish we had that exact quotation here.[1]

Mr. **Lamont.** Who is talking about protecting the money?

Mr. **Raushenbush.** Tardieu. I am trying to quote from memory, which is very bad. I gathered from those people that they felt that we had to go on financing whether we necessarily approved of all the aims they might have had or not.

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[1] Tardieu, *France and America*, see infra, p. 9055.

Mr. **Leffingwell**. What period did they have to go on?

Mr. **Raushenbush**. After we were in the war.

Mr. **Leffingwell**. During the war period?

Mr. **Raushenbush**. There were some comments by them before then as to why we handled the merchantman question the way that we did, by the same people, Lloyd-George and Tardieu, and why we allowed our trade to increase as much as we did.

Mr. **Lamont**. In your quotations of Tardieu, now, are you not quoting from a book he wrote several years after the war?

The **Chairman**. From his memoirs.

Mr. **Lamont**. Something like that.

The **Chairman**. It may have been.

Mr. **Lamont**. It was not contemporary, was it?

Mr. **Raushenbush**. We are getting that quotation.

Then we find a letter from Mr. Crosby to Secretary McAdoo, on July 21, 1917, of which I want to offer a few paragraphs [reading "Exhibit No. 2790"]:

> The charges upon our Treasury due to this foreign demand are now growing so heavy that in connection with our own war expenses, a grave problem is presented to you in the mere matter of finding the money fast enough to meet all these demands. That phase of the situation, however, is one which for the moment I am not endeavoring to cover. It seems to me that, independently of that great difficulty, the magnitude of our loans to foreign governments is such as to justify on the part of the United States Government a more searching inquiry than it has yet made into the general conduct of the European war. The inquiry, if made promptly, would at least give to our Government a better knowledge than it now possesses of the probable duration of the expenditures which now press so hardly upon it; and, further, our own military preparations and operations would be the more wisely conducted if we had carefully weighed the financial, political, and military conditions of those with whom we are associated in a war which will be exhaustive to our own country if expenditures are continued at the present rate—

Then he goes on, giving the expenditures—

> I have not referred above to any inquiry into the political relationships of Europe save those that may be necessarily involved in a determination of any new military moves which our representatives might desire to suggest to our associates. It is quite within my duty to report to you that the Serbian Minister urges, on behalf of his country, that the United States should inform itself of the political determination that have been made between the Allied Governments since the beginning of the war. The relationship with the United States in preference to a satisfaction of their needs through English and French channels suggests the same uneasiness on the part of the small nations in Europe as to the results to be gained from the war, even on the supposition of a marked success for the arms of the Allies, unless the power of the United States should be felt in the political field as well as on the field of battle.

(The document referred to was marked "Exhibit No. 2790" and is included in the appendix on p. 9224.)

Now, Mr. Leffingwell, coming back to that, would you not accept that as a general proposition, that a government that is getting in the position of lending billions and billions possibly, if it does it at the start, could use those loans to affect the political aims of its allies in case it is joining with allies in a war? Would you not accept that offhand as reasonable?

Mr. **Leffingwell**. As an abstraction, of course, the Government can do that, but the Government of the United States did not do that, and the loans that the United States made were cheerfully made with the single objective of winning the war. Mr. Crosby's very interesting philosophy of things does not represent the course of actual lending by the United States, either by him or by the Treasury Department at any time. The loans were made for the sole purpose and the sole objective of contributing to the prompt and successful conduct of the war. Any outside considerations, so far as I can recall, were excluded rigidly as far as it was possible for intelligent men to exclude things that they thought should be excluded.

Mr. **Raushenbush**. If it happened in another war that somebody should come along and say that sort of thing that you are saying now, that once we get into a war, the only thing we can do is dump money over the river bank.

Mr. **Leffingwell**. I did not say that.

Mr. **Raushenbush**. No; you did not say that, but a loan without question.

Mr. **Leffingwell**. No; we never made a loan without question.

Mr. **Raushenbush**. Well, a loan without question of the purposes of our Allies in a war.

Mr. **Leffingwell**. We never made such a loan. We made every loan with the most vigorous inquiry as to whether this loan conduced effectively to the winning of the war. That was the purpose and the only purpose that the Treasury recognized as a justifiable purpose for the making of a loan. Is that correct, Mr. Rathbone?

Mr. **Rathbone**. Absolutely correct.

Mr. **Leffingwell**. They were not political purposes; they were not political loans.

Mr. **Rathbone**. The ultimate aims of the Allied Governments, so far as I know, had nothing whatsoever to do with the making or the refusal to make any loans that they requested.

Mr. **Raushenbush**. That seems to me horrifying in the way Secretary McAdoo is brushed aside on that, Mr. Rathbone. I would like to come back to that because it is important.

You keep saying, Mr. Leffingwell, that everything contributed to the winning of the war. That is all ancient history, unless we might get into the same situation again and somebody might say what you are saying now.

Here was a very able governmental official, or several of them, not only Mr. McAdoo but Mr. Crosby, and President Wilson later, advancing the idea that you could not laugh off all this matter, that it was important, and you could use this influence one way or the other. On what? On what you call the winning of the war. Well, the winning of the war meant winning a peace that would last.

Mr. **Rathbone**. No; I do not agree with you on that.

Mr. **Raushenbush**. What was winning the war?

Mr. **Rathbone**. Winning the war was to have the Germans surrender.

Mr. **Leffingwell**. That was done on Armistice Day, so far as the Treasury was concerned.

Mr. **Raushenbush**. I am just going by President Wilson's idea that when you won a war you secured the terms you wanted, which was a peace that would last. At least, he said that very often to the people. You may not have been interested in that, but I think the people were, that it was not a war of revenge, particularly, but that he wanted to have his aims—his war aims and his peace aims—accepted by everybody; and if loans and credits handled in certain ways could have changed the purposes of the Allies, from being that of territorial acquisition to being somewhat less so, the war might have definitely been shortened.

There is the proposition we might consider in another war, in any war we got into.

Mr. LEFFINGWELL. I really have a picture in my mind a little different from what is in yours, of what really occurred in the Treasury, and I think it perhaps would be something like this: Mr. McAdoo and Mr. Crosby were wisely, as I think, thoughtfully, as you think, considering all these problems, but by the time Mr. Rathbone and I began to have to do with them the control of loans by the limitation of financing on one hand and the urgent necessity of the war on the other superseded all the philosophical and thoughtful and penetrating inquiries and it became purely the pragmatic question of how to raise enough money to support the armies and the navies and carry on the war as it was.

I do not believe that after we had connection with it, Mr. Rathbone, we had much opportunity to consider what was going to be done to the territorial questions.

The CHAIRMAN. Following as closely as I have been able to the thinking of men and the consideration of men in those days, it is difficult for me to believe that President Wilson at any time lost sight of the opportunity that was ultimately going to be ours in making the winning of the war really count for something; and yet we gather from you, who were playing so prominent a part at that time, that making the world safe for democracy or winning a war to end war really was not what was uppermost in your minds.

You were ready to win the war for whatever it would win. We find other evidence, too, during those days, that there was a clash of opinion on the part of those who were leading in that hour as to what the real purpose was.

Did there exist during those days in the Treasury the clashing of opinion that seems to exist now upon what was involved, and what was and what was not the duty of the Treasury? Was there conflict within the Department?

Mr. LEFFINGWELL. There is no clash of opinion now, Senator, and there was not then, so far as I know. There was interchange of ideas.

The CHAIRMAN. No; there is clash of opinion, decidedly, to this extent, that Secretary McAdoo was obviously moving in the same direction that President Wilson was and wanting our help in the winning of that war to be of such an order and such a nature as would let us have a determining hand in writing the terms of peace after it was over with.

But we gather from you that your primary interest was in winning the war, irrespective of what the peace finally might be.

Mr. LEFFINGWELL. There is a job for the general, there is a job for the colonel, and there is a job for the corporal. Whatever kind you may be, your usefulness in the period, Senator—it was quite job enough for the subordinate officials of the Treasury in my time to raise the money and pass upon the loans. We were content to leave to the President and the Secretary of State and the Members of the Cabinet the formulation of policy.

The CHAIRMAN. Then some of you felt in that day that the head of the Department, Secretary McAdoo, was really borrowing trouble?

Mr. LEFFINGWELL. No. As I say, I know nothing of this. Mr. Rathbone was not there, and I was concerned with the Liberty Loans at that time. And I do not remember having had any opinion about it or having heard about it particularly. It is possible I did. But I had the greatest admiration for Mr. McAdoo and for Mr. Crosby, and I think their penetrating minds opened up very interesting fields of thought. I do not think they were borrowing trouble. I think they showed foresight and vision. But, actually, the practical problem of the Treasury became the controlling one, and the extraordinarily difficult task of raising something in the neighborhood of $40,000,000,000 in 2 years was the one that occupied my attention.

Mr. RAUSHENBUSH. There was nothing academic or philosophical about Mr. Crosby's attitude, particularly, Mr. Leffingwell, as we gather it here from this letter. It cost the United States money for the Saloniki operation, for the Dalamatia operation, and for all those extra-territorial activities, if you will, which we had been underwriting as our own peace aims.

Here he says [reading]:

> However much concern I may feel as an American citizen in respect to the policy of my Government as to intervention in political relationships of the Allies, I am not now urging upon your attention that point, but rather those points only which have to do with a successful issue of the war, as war. I am perfectly convinced that our Government is not now in possession of the information that it should have merely as a belligerent nation and for its belligerent purposes.

I do not want to go into this very much further, but perhaps we can get some light from Mr. Lamont on this.

Mr. Lamont, this is a general question and perhaps you do not care to answer it, but you have been listening to this debate, I take it.

Mr. LAMONT. It is very interesting, very interesting.

Mr. RAUSHENBUSH. Do you not get out of it the perfectly independent judgment now as to this little bit that if we get into a war and under the pressure of circumstances have to lend lots of money for the war and for our Allies, that it is just about impossible for us to have, in the back of our minds, that we want a different kind of peace than the other people do, do they not get merged, the same way these loans and credits got merged? Is that too academic a question?

Mr. LAMONT. That is very academic, Mr. Raushenbush, but I do not draw the same inferences, I think, that you do, because I do not look at the thing the same way you do. Mr. Leffingwell and Mr. Rathbone have put it so well that I do not know that I could venture any opinion, but, of course, as they have said, the whole country was devoted to the winning of the war.

Prior to the entry into the war, Mr. Raushenbush, we all knew that President Wilson enunciated certain views that he had. They were undoubtedly in the back of his mind all the time. But in order to carry out those views, Mr. Raushenbush, is it not evident that we had to win the war first? First of all we had to win the war, then the President, the Cabinet, and the Congress could hopefully attain such other ends or such ideals as they might have had in mind and as they might have voiced. Is not that perfectly clear?

Mr. **Raushenbush**. Not entirely, in this way. I still may have what you think is a confusion in mind. But the only reason I want to go into it is because the country might so easily get into the same situation all over again, that you do not necessarily win a war except in the most technical military sense, in the pure-and-simple sense in which a general would use it, the complete military defeat of a nation. That does not necessarily, in these days, win a war. You may have crushed Germany and Hitler may crop up, and your war, if you have won it, is very briefly won. No; you win a war more in the sense President Wilson wanted to win it, that you accomplish certain objectives, and you do not accomplish them unless you have your allies agreeing from the start.

So almost any war we go into today, a war, for instance, that happened to be in conjunction with the League of Nations or other groups at the time, would not necessarily be won by the crushing of an enemy, because our own terms that we went in for might not be won.

Why? Because the other people, our allies, had different aims.

That is what I was interested in, whether it was possible or not once we embarked on this loans and credits policy with its conclusions to buy a shorter war and a better peace.

If it is impossible to use loans and credits, if President Wilson was entirely wrong, if our governmental officials do nothing but just say: "Oh, well, the aims must be somewhat the same and we will put the money in without question", then we are lost. Then you get into the same international confusion that followed the Peace Conference.

Mr. **Lamont**. Of course, Mr. Raushenbush, nobody knows where the war would lead if anybody were to attack us again, as an aggressor, as Germany attacked us throughout 1916 and 1917. We do not know where it would lead. But now, are we not getting into the field of philosophy, as to whether anybody ever wins a war? I can discuss that with you time without end.

Mr. **Raushenbush**. No, thank you.

Mr. **Lamont**. You can argue that nobody ever wins a war in the sense of getting what he really likes. But what I understand these representatives of the Treasury to have been stating this morning is that their job and the job of the country was to win the war at that time, to lick Germany at that time. That is what they were up to.

Mr. **Raushenbush**. And the rest of the country, which did not know about all these things, may have thought they were simply trying to make the world safe for democracy.

Mr. **Lamont**. That may be your interpretation as you remember the temper of the country in 1917. My remembrance is that the country gave itself over to the winning of the war because they believed what President Wilson had told them and what Congress had voted, namely, that Germany had committed aggression upon us and was waging war upon us, and we had no other recourse.

That, I think, was the attitude of the country.

The CHAIRMAN. Frankly, now, while we are expressing opinions, I do not think that that expression alone would have won the backing of the American population that was necessary for the winning of the war. I think the thing that influenced American thinking in those days more than the need for winning the war was the thought of what we might do with our winning.

Mr. LAMONT. Senator Nye, I entirely agree with you in the impress that President Wilson's speeches made upon the country at large, but after we once got into the war—and that is what I might read out of the testimony of the gentlemen here—then it was our business to win it.

The CHAIRMAN. Yes; and our leadership was doing pretty well the job of keeping up front and foremost the thought of winning out in a way that would let us be instrumental in writing the terms of peace, and the ideals that we were dreaming of accomplishing in those terms of peace were of the highest order and the highest nature.

The committee will be in recess until 2 o'clock.

(Whereupon, at 12 o'clock noon, a recess was taken until 2 p. m.)

AFTER RECESS

(The hearing was resumed at 2 p. m., pursuant to recess.)

The CHAIRMAN. The committee will be in order.

On last January 5, Mr. Lamont presented a statement with a request that it might be incorporated in the record.[1]

Mr. LAMONT. That was January 15.

The CHAIRMAN. January 15—presented a statement which the committee said it would like to see before inserting.

Mr. LAMONT. Right.

The CHAIRMAN. The Chair is ready to state that it be incorporated in the record at this time.

Mr. LAMONT. Thank you, Senator.

(The document referred to was marked "Exhibit No. 2791", and is included in the appendix on p. 9226.)

The CHAIRMAN. Mr. Brown.

REPAYMENT OF THE DEMAND LOAN[2]

Mr. BROWN. Mr. Chairman, the discussion this morning concerned the establishment of the Treasury's loan policy with regard to advances to the Allies, and the purposes to which that money was to be put. The present subject is the question of the demand loan, as it was outstanding on April 6, 1917, and what became of that loan, the suggestion that the Treasury pay it off, and the refusal of the Treasury to do so in accordance with the policy which had been laid down.

The record shows that at the time of the United States' entry into the war this loan amounted approximately to $345.000,000. The record also shows that in July 1917, according to two memoranda from the British Government to the United States, that the British considered themselves in a state of financial exhaustion, so far as their American resources were concerned.

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[1] See Hearings, Part XXVIII, p. 8653.

[2] See also "Exhibits Nos. 4116 and 4130", Hearings, Part XXXII.

The record also shows that although the British Empire was still possessed of enormous commercial resources—and Mr. Morgan testified very clearly as to that, the untapped equities, for example—that it was very doubtful how rapidly cash could be mobilized to meet the requirements for dollars in America.

The record at this point will take up how rapidly, if at all, those resources were mobilized to supplement Treasury advances. It seems proper to point out that the deposit of securities with the American Dollar Securities Committee in England, under scheme B, was discontinued on May 11, 1917, and that the entire scheme was closed on May 1, 1918. That was the scheme under which securities had been deposited to be pledged or sold for dollars in the United States.[1]

That closes up the record to this point, but I would like to call attention to an exhibit already in the record,[2] a cable from Morgans in New York to Morgans in London. I am very sorry I have not the page reference of the volume here.

Mr. **Lamont**. What is the date?

Mr. **Brown**. It was about March 26. It is a cable in which it was stated——

Mr. **Whitney**. What year?

Mr. **Brown**. 1917. In which it was stated that the Treasury would be prepared to make advances to the Allies, and the phrase was used, "thereby leading to a solution of all the exchange difficulties of the Allies."

Mr. **Whitney**. That is not quite what it said, is it?

Mr. **Brown**. It is in the record under that number.

Mr. **Lamont**. It is page 1239 in our volume. We say [reading]:[3]

> We believe that in due course President Wilson is likely to advocate such a plan to Congress, and we are in hopes that if adopted it might become effective on or about May 1, thereby leading to a solution of all the exchange difficulties of the Allied Governments. Of course, you are well aware that Congress may possibly be cool or very slow in the matter, and hence we are unable to count definitely upon any action as yet.

Mr. **Brown**. The phrase which interests us at the moment, Mr. Lamont, is that, "thereby leading to a solution of all the exchange difficulties of the Allies." We take that to mean that you considered it entirely to include pressure of supporting the sterling rate, the pressure of supplying commodities, the pressure of maturities, perhaps, that all those things went to make up the exchange difficulties of the Allies—that is, the difficulties of raising dollars—and that all those difficulties would find a solution in American advances. Is that a correct interpretation?

Mr. **Lamont**. I do not think I should attempt at this time to envisage every particular thing, Mr. Brown; but of course we were referring to the statement which President Wilson had made, and the Secretary of the Treasury, in regard to granting ample credit to the Allies.

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[1] For full information on this scheme see "Exhibit No. 4252", Hearings, Part XXXV.
[2] Previously entered as "Exhibit No. 2690", see Hearings, Part XXVIII, p. 8630.
[3] Ibid.

Mr. **Brown**. You felt that the financial problems of these Allies, all the various kinds of requirements that fell upon them, were a unit really? You could not separate one from the other and say, "This can be taken care of, and that is another matter", but they were all involved together?

Mr. **Lamont**. You see, there were no maturities up to that time. We always had the exchange situation on our minds very strongly.

Mr. **Brown**. There were some contractors' notes coming due in the Fall. Of course, that is in the testimony.

Mr. **Lamont**. I beg your pardon.

Mr. **Brown**. I just mentioned that there were contractors' notes coming due in December of that year.

Mr. **Lamont**. That cable expresses a hope, Mr. Brown.

Mr. **Brown**. The question then occurs whether, without these advances—how much of those exchange difficulties the Allied Governments could have cared for themselves.

Mr. **Whitney**. Where does it arise?

Mr. **Brown**. It arises logically, Mr. Whitney. It is a hypothetical question and cannot be answered, but on that point I would like to offer for the record a chart of the British dollar resources quarterly from 1915 to 1921, if someone will expose the chart [referring to chart on easel].

(The chart referred to was marked "Exhibit No. 2792" and is included in the appendix on p. 9231.)

Mr. **Brown**. It is a little difficult to distinguish at this distance, but the darker blocks are sums from the British Government's own resources, and the lighter are Treasury advances, reimbursements, combined. The white squares are Treasury funds for other purposes, as the legend says, sterling exchange, rifle plants, and various factors from the Treasury.

Mr. **Lamont**. What are the dark parallel lines?

Mr. **Brown**. Suppose I explain it in more detail. These solid blocks are the sales of securities through J. P. Morgan & Co. [indicating]. That does not, therefore, include sales which may have been made elsewhere, but that was unquestionably the large bulk.

The parallel white and black lines are gold shipments; the diagonals, black and white, are the sales of sterling exchange. The cross-hatched lines are net receipts from loans; that is, increases in the loan accounts.

That is a small income from securities [indicating on chart]. These long, rather light bars are Treasury advances [indicating] and reimbursements out of Treasury advances—that is, where the Treasury advanced to France or Italy, and paid to the Treasury, and went to Great Britain—and is included along with the direct Treasury advances. That represents sums for which the United States received an obligation of the Italians or French, as to which the proceeds were available to Great Britain.

The white represents sales of exchange and various things by the British Government to the United States Treasury.

In other words, this is the dividing line between Great Britain's own resources and her resources from the Treasury of one sort or another, which began to drop in the first quarter of 1917 and dropped in the second quarter and in the third quarter to $75,000,000, and remained below that figure until the third quarter of 1918, and in the fourth quarter it rose slightly and dropped again.

All this sum in here [indicating] is from United States resources, and this little sum [indicating] along the bottom is Great Britain's own resources.

Mr. Whitney. This is not a chart which we prepared, is it?

Mr. Brown. Oh, no, Mr. Whitney.

Mr. Whitney. Is our name on it for identification?

Mr. Brown. Yes; it is from records in your files.

Mr. Whitney. I thought you said "Treasury account."

Mr. Brown. That is from your files, is it not?

Mr. Whitney. No; Treasury account.

Mr. Brown. The British Government Treasury account is from your files, is it not? We obtained it from you. We will let it go at that.

Mr. Leffingwell. Mr. Brown, may I ask in connection with that figure which you say is the vanishing line of the British Government's own resources, how do you deal with the one-half billion dollars of the proceeds of the pounds in foreign currencies?

Mr. Brown. That is differentiated, Mr. Leffingwell. You see the plain top squares over each column? The purchases of sterling exchange are included in that white square; that is, United States Treasury purchases of sterling exchange.

Now, when we were discussing the demand loans previously there was a great deal of discussion of how it would be financed, and so forth, if the United States had not entered the war; and it seems to us, in line with that, pertinent to ask whether anything like those sums [indicating U. S. Treasury advances] could have been supplied from Great Britain's own resources, if the United States had not entered the war. That, again, is a hypothetical question, of course, but does it seem to you a fair one?

Mr. Lamont. Mr. Brown, it is not only a hypothetical question, but it seems to me you would have to rely upon the merest conjecture to answer it. We do not know what resources the British Government could have mobilized, or what the British Empire would be willing to furnish in certain contingencies. All that we testified to was that until America got into the war the British Government had furnished us with sufficient securities in the way of collateral and in the way of pledge and sale of American securities, and so forth, to meet all their obligations. We cannot go beyond that, can we?

Mr. Brown. You think you could, however, do you not, say that if it had been necessary, those dark squares underneath could have been greater, if the United States had not entered the war? Those are not all the resources available in America if there had been no preemption of the American money market by the Liberty bonds. That is a fair question, is it not?

Mr. Whitney. You will remember, Mr. Brown, that we testified a good many times to the fact that all through the fall of 1916 and the early part of 1917 that we were advising the British Treasury that they would have to watch out for their purchases so that they would be able to handle their purchases. You are now raising a completely different contingency, which did not occur. In other words, you assume that they would have bought the same amount of goods in this country that they did do when they had available credits from the United States Government.

Mr. **Brown**. Let us assume they would have bought less, but they could have raised a far larger revenue than is actually shown on this chart, Mr. Whitney.

Mr. **Whitney**. As we testified before, they had plans which were perfectly consummated, to sell $200,000,000 of Canadian Pacific and $50,000,000 London municipals, all of which were stopped. The obtaining of securities under those plans was stopped when the necessity stopped, as you know. It is hard to tell, if circumstances had been completely different from what they were, what they would have done.

The two alternatives are clear: They either had to collect for the purchases bought here or else curtail their purchases. Those are the alternatives.

Mr. **Brown**. I think that answers the question; thank you, Mr. Whitney.

There was, however, a Canadian loan, was there not?

Mr. **Whitney**. $100,000,000 in the summer of 1917, a note. That was the Canadian Government, $100,000,000.

Mr. **Brown**. I mean floated in this market after we entered the war.

Mr. **Whitney**. For Canadian purposes; yes, sir.

Mr. **Lamont**. With the approval of our own Government.

Mr. **Brown**. Oh, yes.

Mr. **Whitney**. That was not for the British Government. They did not get the credit of that.

Mr. **Brown**. Mr. Whitney, one time in answer to a question of mine on page 12782 of the testimony script, you testified:

> After all, if you assume that certain circumstances had been completely different—I am not saying they could go on indefinitely buying at the same rate in this country, because obviously some time there comes an end to it, but there is no indication anywhere in the record that at the time the circumstances changed the British were not more than able to take care of their full requirements.

I might have saved your answering the question, if I had noted that I had the answer right here.

In contrast, however, to that, is the statement in Exhibits Nos. 2646 and 2647,[1] in the latter of which Sir Cecil Spring-Rice on July 1 said:

> There is danger that the ability of His Majesty's Government to effect payments in America from today onward will be in jeopardy.

I think that covers the position of the British Government at the time we entered the war.

Mr. **Whitney**. That was July?

Mr. **Brown**. That was July.

Mr. **Whitney**. So that circumstances had completely changed?

Mr. **Brown**. The question of the preemption of the American market. Is that what you are referring to?

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[1] See Hearings, Part XXVIII, p. 8596.

Mr. WHITNEY. And the fact that the United States Government was extending credits.

Mr. BROWN. Did you not, Mr. Lamont, receive $100,000,000 and apply it to the demand loan on April 26?

(The statement showing the figures appearing on chart Exhibit No 2792 was marked "Exhibit No. 2793" and is included in the appendix on p. 9232.)

Mr. BROWN. I offer cable no. 43249 of April 25, 1917.

(The document referred to was marked "Exhibit No. 2794" and is included in the appendix on p. 9234.)

Mr. LAMONT. We received $200,000,000, Mr. Brown, of which $100,000,000 was applied temporarily to the demand note, and then that was filled up from other British resources a little later.

In that connection we have a statement of the whole situation, involving a very recent letter from the British Treasury, because they looked up their records, and I would like to offer this for the record and also for the inspection of the members of the Committee at the same time.

(The document referred to was marked "Exhibit No. 2795" and is included in the appendix on p. 9234.)

Mr. BROWN. The net result of that payment was to leave the loan on April 26 higher than it had been on April 6, was it not? I mean the advances on the loan from April 6 to April 26 were greater than that $100,000,000 payment?

Mr. LAMONT. Five million dollars less, one of my associates says here. I am not familiar with the exact dates.

Mr. WHITNEY. Later on it went up above the figure of $345,000,000. On May 6, 1917, as you know, it was $398,000,000.

Mr. BROWN. Excuse me; I misphrased my question. Let us say before advances ceased on the demand loan, it had reached a total which exceeded the total of April 6.

Mr. WHITNEY. By $53,000,000.

Mr. BROWN. You expected the balance of the demand loan to be liquidated as soon as the United States Treasury received the proceeds of the first Liberty loan, did you not?

Mr. LAMONT. We hoped it might be liquidated from that source, Mr. Brown. The information which we had received from the direct representatives of the British Government led us to entertain that hope, certainly.

Mr. BROWN. I will offer a telegram from J. P. Morgan & Co. to Herman Waldeck, dated June 1, 1917. It says [reading from "Exhibit No. 2796"]:

> We expect this loan—

That is the demand loan—

> to be paid off in full on July 1. (Stop.) If the matter interests you, you might wire us accordingly.

That is the matter of getting a further allotment on the demand loan.

Mr. WHITNEY. To whom was that adressed?

Mr. BROWN. Herman Waldeck, of the Commercial & Continental National Bank.

(The document referred to was marked "Exhibit No. 2796" and is included in the appendix on p. 9236.)

Mr. LAMONT. With your permission, Mr. Brown, I think it might be well to read into the record just a paragraph or two from this British Treasury letter, which bears so directly on that matter. It says [reading from "Exhibit No. 2795"]:

> In reply I am directed to inform you that in the period immediately preceding the entry of the United States into the war it was the intention of His Majesty's Government to issue a market loan out of the proceeds of which the demand loan would be repaid. The proposal to issue a market loan at this time was, however, abandoned in deference to views expressed by the United States Treasury.
>
> After the entry of the United States Government into the war on April 6, 1917, the United States Treasury expressed the wish that no part of the funds being advanced by them to His Majesty's Government should be used for the reduction of the demand loan which, at the time that the United States entered the war, amounted to $345,500,000——

Which is as you have stated.

(Continuing reading:)

> Before this wish was expressed, $100,000,000 out of an advance of $200,000,000 made on April 25, 1917, by the United States Treasury to His Majesty's Government had been applied on April 26, 1917, temporarily against the principal and interest of the demand loan. This amount of $100,000,000 was less than the expenditure of His Majesty's Government in the United States for materials, supplies, and exchange between April 6, 1917, and April 26, 1917. The increase in the demand loan between these two dates was $91,300,000. There were various debits to the demand loan and credits thereon——

Which it indicates.

(Continuing reading:)

> * * * the net result being that the demand loan on May 16, 1917, amounted to $398,500,000, or $53,000,000 more than when the United States Government entered the war—

As Mr. Whitney said.

Then it goes on to explain that out of the sum which was received, the entire $398,000,000 was cleared off from resources of the British Treasury.

As you will note from this exhibit, Mr. Brown, we had asked them to check their records carefully and let us know exactly what they showed, and this reply of theirs covers the situation.

Mr. BROWN. It seems to agree with every other thing.

Apparently Mr. Phillips in this letter states the wish you expressed, that the funds advanced by the Treasury should not be applied on the demand loan, but before that wish was expressed, not only had something been applied on it, smaller than the loan was afterwards extended, but it was expected by yourself and the British that more would be advanced, if that was permitted, was it not?

Mr. WHITNEY. I think, Mr. Brown, our records show as clearly as one can without actual proof, that this was the most normal action in the world. They received $200,000,000 from the United States Treasury and had immediate need for about $100,000,000, and they had a debit, and applied $100,000,000, as any prudent man would, against the $100,000,000 reducing the interest charge.

I did not go into the intricacies of the different accounts which were created, as this went into debit, but they had need for the $100,000,000 which went out quickly, and the other $100,000,000 was devised to carry interest at 4 percent, because we were allowing 2 percent on credit balances and allowing 6 percent on debits. It was a temporary application, and I do not think it was applied to it, although that is the word used.

Mr. BROWN. My question was whether you expected the entire balance of the loan to be paid off.

Mr. WHITNEY. Certainly not at that time.

Mr. BROWN. Not at that time but on July 2.

Mr. WHITNEY. As Mr. Lamont said, we had information from certain representatives of the British Government somewhat later on the proposition, and we hoped that it was going to be paid from the proceeds of the sales of the Liberty Loans. That hope somewhere along at the end of June was changed.

Mr. LAMONT. The record shows, Mr. Brown, as you will recall, that there was a very active discussion going on between the two Treasuries at that time as to the status of the demand loan.

Mr. BROWN. The only point I was trying to get clear on was that up until the end of June, at any rate, you did expect that the loan would be completely liquidated with these Treasury advances?

Mr. WHITNEY. Certainly.

Mr. BROWN. And apparently the British thought that, too.

I offer for the record a letter from Sir Cecil Spring-Rice to the United States Treasury, dated May 3, 1917, in which this paragraph appears:

> I take this opportunity of stating that the requirements of my Government for the next 6 months, in the United States of America, are estimated to amount to $1,500,000,000.

(The document referred to was marked "Exhibit No. 2797" and is included in the appendix on p. 9236.)

Mr. LAMONT. There was a distinct misunderstanding, a perfectly honest misunderstanding, not between us and anybody, but between the British and the American Treasury people about that loan. This cable of July 2, 1917, to which Mr. Whitney calls my attention, said that we had understood that the demand loan would be paid off at that time. The cable to Morgan Grenfell says [reading from "Exhibit No. 2801"]:

> Please inform the Chancellor of the Exchequer that all our plans and movements during the past 2 months have been predicated upon our definite understanding that nos. 1 and 2—

That is the call or demand loans—

> would be liquidated in full on July 2 as the result of advances to the amount of $400,000,000 to be made to the British Government by the American Government and paid to us for that specific purpose.

Instead of that, as we all know, the American Government decided that it must freeze the demand loan, and it would not make advances to pay it off, and would not permit us to sell the collateral to it, and it would not permit the British Government to enter into a refunding operation.

Mr. BROWN. I think we will come to that in just a moment, Mr. Lamont.

In "Exhibit No. 2647", which is already in the record,[1] on July 1 Sir Cecil Spring-Rice makes the specific request for this $400,000,000. He says:

> In view of the practical depletion of our resources in gold and marketable securities, I am instructed to present to you a formal request for the following financial assistance.

I want to state in passing that Sir Cecil was of course not a banker, but he was apparently more concerned with what he considered "the practical depletion of our resources in gold and marketable securities" than in the closing of the American market.

I offer for the record a letter from Mr. Crosby to Mr. Lansing, on June 28, 1917.

(The document referred to was marked "Exhibit No. 2798" and is included in the appendix on p. 9237.)

Mr. BROWN. The only point in that letter is the opening line [reading]:

> Yesterday afternoon, Mr. Henry P. Davison of New York, a member of the firm of J. P. Morgan & Co., called at this office, and asked whether there could be any doubt as to an engagement which had been reported to him as having been made between Mr. Balfour and Lord Cunliffe on the one hand and the Secretary of State on the other, or other representatives of our Government, to the effect that $400,000,000 would be loaned to the British Government on the first of July.

The balance of that is of no consequence.

I offer for the record cable no. 38561, of June 28, 1917, for Mr. Morgan from Mr. Grenfell.

(The document referred to was marked "Exhibit No. 2799" and appears in full in the text.)

Mr. BROWN. That cable reads in full as follows:

> For my private information can you tell me whether you expect large repayments to be made of your no. 1 and 2 loans out of proceeds Liberty loan. Also what is general policy which Washington is going to pursue especially with regard to exchange, in view of constant daily purchases of sterling. E. C. Grenfell.

Mr. BROWN. I offer for the record cable no. 47339 of June 29, 1917, which is the answer to the foregoing.

(The document referred to was marked "Exhibit No. 2800" and is included in the appendix on p. 9238.)

Mr. BROWN. That cable reads in part as follows:

> By reason of representations repeatedly made to us, we have all along been confident of receiving on July 2 a payment sufficient in size to liquidate entirely no. 1 and 2. On Wednesday last, however, we were suddenly informed that this payment was in doubt and it now seems certain that we will not receive payment on July 2 as agreed. We still hope that this is only a short postponement as we consider the matter of the utmost importance.
>
> In regard to exchange, we have as yet been unable to learn the attitude of Washington, and we question whether they have adopted a definite policy in this matter.

That, if I may digress for a moment, would seem to connect it up on the issue which Mr. Leffingwell was discussing this morning with regard to the Government policy which would imply the question of a policy in regard to exchange support was open. Is that correct, Mr. Leffingwell?

Mr. LEFFINGWELL. It would seem to imply that.

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[1] See Hearings, Part XXVIII, p. 8596.

Mr. **Brown**. You do not recall it, however?

Mr. **Leffingwell**. I do not recall it at that particular moment. As I explained this morning, my attention at that time was concentrated upon the Liberty Loans, and I might very well not have been familiar with it at that time.

Mr. **Lamont**. Those cables, of course, Mr. Brown, simply confirm what has been said so many times, namely, that the British Government representatives had these talks with the American Treasury representatives, and thought that they had arranged for funds to meet these demand loans, and so represented to us, and it was upon their representation that we relied here in Mr. Morgan's cable upon that.

We, too, of course, were pressing the American Treasury for that same solution of the matter, and they did not see their way clear at all to adopt that point of view, as the record shows.

Mr. **Leffingwell**. Mr. Brown, since you were kind enough to refer to me, let me ask if you are in due course going to put in the Treasury communications on this subject?

Mr. **Brown**. Yes, sir.

Mr. **Leffingwell**. Most of them, as you know, were published by the State Department some years ago.

Mr. **Brown**. Yes, sir; they were practically all published.

Mr. **Leffingwell**. It occurred to me, in connection with Mr. Rathbone's suggestion this morning, that if you are interested in ascertaining the Treasury's policies and actions, even during the period when he and I were less or not at all concerned with these matters, it is important that you get in the record the Treasury's own communications and account of these things. The largest part of them, as you know, has been published by the State Department.

Mr. **Brown**. Yes, sir.

Mr. **Leffingwell**. In great detail.

Mr. **Brown**. They do not answer the question of how the loan was paid; and since this matter has had so much misunderstanding, from start to finish, it seems wise to make it fairly complete for the consideration of all.

Mr. **Rathbone**. I do not think the finish was very uncertain. The start was very much mixed up.

Mr. **Brown**. We could quote Mr. Page on it.

Mr. **Leffingwell**. You mean, perhaps, memory of it is uncertain, but the facts are not uncertain.

Mr. **Brown**. I offer for the record cable no. 47404, of July 2, 1917, the one from which Mr. Lamont was just reading.

(The document referred to was marked "Exhibit No. 2801" and is included in the appendix on p. 9238.)

Mr. **Brown**. Taking it up in the middle of the second paragraph, the cable states [reading]:

> It is a cause of great regret that conditions here make it clear that this loan payable on demand cannot be continued longer and unless some other solution can be arranged for immediately, we feel we must proceed to sell collateral and apply proceeds toward reduction of loan. We would expect to begin such sale on Thursday morning. We would, of course, be glad to make an effort to convert this loan into such a time loan as might suit conditions of our market, providing that the Chancellor of the Exchequer desires us to make this effort, and that it meets with the approval of the American Government. But, in any event, steps must be taken providing for the immediate payment

of the loan. We are greatly distressed at the position we now necessarily take, but as we were informed and confidently expected the loan to be paid today, all the arrangements of ourselves and associates have been made accordingly and we are consequently left no alternative.

Mr. Lamont, the loan on July 2 was only some 40 million dollars higher than it had been in April, was it not, or $53,000,000, I believe you said?

Mr. **Whitney.** That was in May.

Mr. **Brown.** At this time it was only some 40 million dollars higher. Why was the pressure of the loan in July so much more pressing than it had been in April?

Mr. **Lamont.** The Treasury correspondence, which Mr. Leffingwell refers to, might be able to answer that, but, as the British Treasury representatives told us, as I recall it, they had fixed a date, July 1 or July 2, as the date when it would be taken up. It was not a question of any more pressure on any one day than on another day, but that was the date, as I understand it, fixed between the two Treasuries.

DEMAND LOAN—EXPECTATION OF UNITED STATES REPAYMENT AND IMPLICATION THEREFROM [1]

Mr. **Brown.** The thing which we find a little difficult to reconcile in the cables is the fact that from December into April the loan was carried to very great heights, with no very great concern with regard to its repayment, and that here, when the question of repaying it becomes difficult, it suddenly becomes a tremendous strain.

Mr. **Whitney.** Mr. Brown, I think that is very easily cleared up. I think the pressure referred to here was the pressure upon us. Here this loan had been going on for a long time and, as you say, it was a very substantial amount on April 6, and had grown $53,000,000 higher. It was common knowledge between the participants of the loan, between the entry of the United States into the war and that date, that the capital markets were closed. Therefore the plans under way to liquidate this loan at least in part had been stopped.

You have got to remember, as you know very well, that this demand loan was an interim loan, pending larger and larger operations. We had given our participants the expectation that this loan was going to be paid off by advances from the American Treasury. Then in a very short space of time, prior to that date, we found that that was inaccurate. We had a very strong moral responsibility to do something about liquidating these banks, the sixty-odd banks which were carrying this very large amount of money, and they were expressing a desire to subscribe to Liberty Loans and our own Treasury needs and, obviously, they were concerned as to what was going to happen about this loan, which they had expected to be paid, and which all the time up to our entry into the war had been paid off and renewed and had gotten up to a point where it was static.

Mr. **Brown.** Except in February.

Mr. **Whitney.** Except, as we testified once before, the banks were all paid off, but we were not.

Mr. **Brown.** For 2 days.

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[1] See also "Exhibit No. 4116", Hearings, Part XXXII.

Mr. **Whitney**. A few days, certainly, but they were paid off, but so far as they were concerned, every one of the previous refunding operations had cleaned them up on this loan. The pressure was that in the space of 3 days we found instead of getting paid July 2, they have got a participation in $375,000,000, let us say, on a loan which they do not see any immediate way of paying except by recourse to the collateral, and we were in the position of having to deal with them and having a very heavy moral responsibility as to what we were going to do to try to clean up this loan, by reason of the fact that the American Treasury obviously was financing and the banks wanted to do everything that they possibly could do. And that is what runs through all these cables, and it involved the greatest possible urgency on our part to try to clean up this frozen situation. The pressure here is a pressure on us to make good on what we led our participants to believe would happen July 2.

Mr. **Brown**. Would not that apply to the condition of the loan on April 6 equally?

Mr. **Whitney**. April 6?

Mr. **Brown**. The loan on April 6 was like any other funding loan had been.

Mr. **Whitney**. I suppose you mean about April 6, because the Canadian Pacific situation went off afterward.

Mr. **Brown**. You testified that those would not liquidate it.

Mr. **Whitney**. There were plans which would have liquidated it. You must remember during the first few months of the war that everything was in an unsettled state and everything was waiting on the needs and desires of our own Treasury.

Mr. **Brown**. That was after April 6, Mr. Whitney.

Mr. **Whitney**. Surely.

Mr. **Brown**. Here is a loan for which there was no visible liquidation. There were various proposals, none of which culminated, and which you testified would take a great deal of time, and the loan is carried right on up to April 6, and no concern is felt in February or March, whether or not the loan is good, but in July, when the United States declines to pay it off, great concern is felt.

Mr. **Lamont**. If you will examine the cables in February and March, you will see, as Mr. Whitney said, that the plans were to clear that off by the various methods referred to, London Municipals and Canadian Dominion collateral, $200,000,000, or something like that. There was to be another U. K. loan against the Dominion securities. Our principals were unquestionably concerned and informed by us from time to time as to what the plans for financing were.

Mr. **Brown**. Let us put it crudely. I do not see what your point is exactly. Did you have any expectation in February and March that the United States would come into the war after diplomatic relations had been broken and would liquidate the loan?

Mr. **Lamont**. No; certainly not. Read the cables. The cable record states it very clearly.

Mr. **Brown**. You might have thought something, Mr. Lamont, without writing it in a cable.

Mr. **Lamont**. The way we felt was the way the whole country felt. Undoubtedly, when von Bernstorff was given his passports, that put the whole country on notice that a serious situation was approaching.

The fact that we deliberately planned further financing right up to the verge of America getting into the war——

Mr. **Brown**. Mr. Lamont, the record does not show that that financing was ever big enough to take care of the loan.

Mr. **Lamont**. Mr. Brown, you must do one step at a time.

Mr. **Brown**. The loan never stood still, Mr. Lamont, and you got a little, but it grew faster than you could refund it.

Mr. **Lamont**. I do not see your point. That loan at its height, at its highest point, was secured, somewhat after that, by collateral, equal to almost twice the amount of the loan, over one-half of which was American collateral.

Mr. **Brown**. We have been over the collateral, and supposing we move on.

Mr. **Whitney**. Mr. Brown, one thing. In June, of course, the First Liberty Loan had been issued, had it not?

Mr. **Brown**. Yes, sir.

Mr. **Whitney**. And the banks, who were participants in this, had subscribed in a very large way to that loan, so that they had other needs for funds in July, which they did not have in April. That is perfectly obvious, is it not?

Mr. **Brown**. Yes, I imagine that was a factor in it.

I offer cable No. 38679, of July 3, 1917.

(The document referred to was marked "Exhibit No. 2802" and is included in the appendix on p. 9238.)

Mr. **Brown**. That cable reads in part as follows [reading]:

> 47404 communicated to the Chancellor of the Exchequer. He expresses great surprise that it should be necessary so quickly to make provision to liquidate the call loans. He hopes that Lord Northcliffe and Sir Hardman Lever may be able to persuade the authorities Washington, D. C., to make the repayment which you expected.

I offer cable no. 38681 of July 3, 1917, which needs no comment.

(The document referred to was marked "Exhibit No. 2803" and is included in the appendix on p. 9239.)

Mr. **Brown**. I offer cable no. 47445 of July 3, 1917, which needs no comment.

(The document referred to was marked "Exhibit No. 2804" and is included in the appendix on p. 9239.)

Mr. **Brown**. I offer cable no. 47446 of July 3, 1917.

(The document referred to was marked "Exhibit No. 2805" and is included in the appendix on p. 9239.)

Mr. **Brown**. That cable reads in part as follows:

> You can readily appreciate that we would do anything in our power to avoid causing the slightest embarrassment to you or the Chancellor or your Government. We fully recognize that the failure to receive the expected payment of $400,000,000 is in no way the fault of the British Government, but that does not alter the fact that, having been told more than 2 months ago that the payment would be made, all our arrangements since that time necessarily have been based upon that understanding. We have had to contend with serious difficulties. Owing to semiannual settlements and large payments for Liberty Loan, our own deposits have decreased over $100,000,000 * * * In order to avoid requesting the British Government to pay off any part of the loans, we have met these calls ourselves and in order to do so and provide for our own decrease in deposits, we have used our own personal credit.

I offer for the record a cable from Ambassador Page to Secretary Lansing, dated June 28, 1917.

(The document referred to was marked "Exhibit No. 2806" and is included in the appendix on p. 9240.)

Mr. **Brown**. That letter reads in part as follows [reading]:

> Mr. Balfour asked me to a conference at 7 o'clock with him, the Chancellor of the Exchequer, and their financial advisers. It was disclosed that financial disaster to all the European Allies is imminent unless the United States Government advances to the British enough money to pay for British purchases in the United States as they fall due.

Down at the bottom of the same letter it states [reading]:

> He authorizes me to say that they are now on the brink of a precipice, and unless immediate help be given financial collapse will follow.

Mr. **Lamont**. Mr. Brown, may I ask for our information, are you planning to read into the record cable no. 47482, of July 5, because Mr. Morgan's cable there comments on the situation described in the cable of which you have just read a part?

Mr. **Brown**. Yes; we are coming to that.

Mr. **Lamont**. Thank you.

Mr. **Brown**. Then I offer for the record a cable dated July 5, 1917, from Ambassador Page to Secretary Lansing.

(The document referred to was marked "Exhibit No. 2807" and is included in the appendix on p. 9240.)

Mr. **Brown**. That cable reads in part as follows [reading]:

> Late yesterday I attended a financial conference, to which I was called, of the Prime Minister, the Chancellor of the Exchequer, the Foreign Secretary, the Governor of the Bank of England, and their advisers about the $400,000,000 overdraft which the British Government owes Morgan. They informed me that on April 6, Spring-Rice telegraphed that he had received a definite promise that this sum would be paid the British Government to meet this overdraft and that it should be the first call on the Liberty Loan. They say also that on April 9 the Governor of the Bank of England received the same promise from Mr. McAdoo. * * * The conference asked me to report the foregoing and to express the hope that this sum would be speedily paid. * * * I promised to send you this telegram and I suggest that Mr. McAdoo's understanding of the matter be telegraphed me with whatever assurance he may give of the payment of this overdraft and the date when its payment may be expected.

I offer, without comment, in regard to the transfer of loan 1 and loan 2, cable no. 38682 of July 3, 1917, and cable no. 38690 of July 3, 1917.

(The documents referred to were marked "Exhibits Nos. 2808 and 2809" are included in the appendix on p. 9241.)

Mr. **Brown**. I offer cable no. 38691, also of July 3, 1917, from E. C. Grenfell for J. P. Morgan, which reads as follows:

> Refer to my cable 38690. For your confidential information the transfer of so large an amount of gold for no. 1 account will have bad effect. If, therefore, you find Washington willing to change its attitude and make repayment all or part of no. 1, I would ask you to avail as little as possible of transfer of Ottawa gold for no. 1. E. C. Grenfell.

(The document referred to was marked "Exhibit No. 2810" and appears in full in the text.)

Mr. **Brown**. I offer, to complete the Bank of England transactions, cable no. 38786 of July 6, 1917, and cable no. 38708 of July 5, 1917.

Mr. **Lamont**. Did you say no. 47482?

Mr. **Brown**. No, not yet. Also I offer cable no. 38709 and cable no. 47472.

(The documents referred to were marked "Exhibits Nos. 2811, 2812, 2813, and 2814", respectively, and are included in the appendix on pp. 9241 and 9242.)

Mr. **Brown**. We will come to cable no. 47482 of July 5 from Mr. Morgan to Mr. Grenfell. I offer that for the record.

(The document referred to was marked "Exhibit No. 2815" and is included in the appendix on p. 9243.)

Mr. **Brown**. That cable reads in part as follows [reading]:

> Returned this morning and have read cable correspondence from June 28. Sir Hardman Lever goes to Washington tonight; will undoubtedly clear up situation in talk with Secretary of Treasury tomorrow. We will endeavor to keep you fully informed. Meanwhile there is no financial situation between us and Washington. Our financial situation is with British Government's representatives here and it is they who must adjust all questions with Washington. Am enormously impressed with courage and firmness of Lord Cunliffe as shown in your 38690, but we do not wish to avail ourselves of this unless it should be necessary. We shall be entirely satisfied to know gold is in Ottawa and available if we need it and trust that we shall not be forced to call for actual shipment which we should regret from many points of view. Should the American Government now make up its mind that it will not help in paying off this loan, we believe there are various methods which can be applied which will provide enough money and at the present time there is no pressing need for the payment here. Even if it should be necessary later to sell part of the collateral we will not sell it in a hurry nor in such a way as to get less for it than we ought to and, of course, nothing will be done except in consultation with British Treasury agents here.

Mr. **Brown**. The tone of that cable seems to be far more optimistic than the earlier ones, part of the picture about which there seems to be a misunderstanding here. Why was there no pressing necessity on July 5, Mr. Lamont, if it had been pressing on July 2?

Mr. **Lamont**. Perhaps that represents a different point of view. The cable that you read before was from one of the partners, who perhaps had been in contact with some of these banks, and—I do not know—felt the pressure of the thing. Then Mr. Morgan returns from a holiday, as is shown by the record, and he looks over the situation, and he takes apparently a more serene view of it and says it is all right. That is about all there is to that.

Mr. **Morgan**. The payment for the first Liberty Loan had been made by this time, and the pressure on the money market of the transfer of so much funds had lessened very much. It had gotten itself adjusted which made my point of view more natural than it would have been for me to get the same while they were suffering from the shock, and the pressure on the money market of the Liberty Loan was added to that. It made them feel that they had to do something right off quick.

Mr. **Brown**. In other words, the loan was a great burden, but not an impossible one.

Mr. **Morgan**. That is a very good statement of it.

Mr. **Brown**. I offer cable no. 38795, which is the answer to the foregoing, dated July 6, 1917, from Mr. Grenfell.

(The document referred to was marked "Exhibit No. 2816" and is included in the appendix on p. 9243.)

Mr. **Brown.** I wish to read only one sentence:

> We hope shortly to hear that the United States Government have agreed to pay off loans nos. 1 and 2.

I offer for the record a letter from Secretary McAdoo to Secretary of State Lansing, dated July 9, 1917.

(The document referred to was marked "Exhibit No. 2817" and is included in the appendix on p. 9244.)

Mr. **Brown** (reading):

> It is true that the Secretary of the Treasury did not know that there was danger that the ability of His Majesty's Government to effect payments in America would be in jeopardy; nor could the Secretary of the Treasury, without far more complete and detailed information than has been furnished him by the financial representatives of the British Government, have been aware of this. The Secretary of the Treasury has received the information contained in the note of the British Ambassador with the gravest concern.

Mr. **Leffingwell.** Are you going to put in that whole letter?

Mr. **Brown.** I am entering the whole letter for the record, Mr. Leffingwell.

In line with Mr. McAdoo's concern to have things more or less clear, as we have seen in the morning session, I call attention to this sentence [reading]:

> It is to be regretted that general expressions of good will and a general discussion of the needs of foreign governments, and of the possibility of the United States Government's meeting these needs, should have been construed as positive undertakings on the part of the United States to meet requirements which had not been stated in definite terms.

Further on in the letter is a definite refusal to pay.

> If, from what the Ambassador says with reference to these matters, it is to be inferred that the British Government desires to look to the United States not only for the advances indicated in the communications referred to under date of May 3 and May 29 but in addition thereto for whatever sums may be necessary to pay off maturing indebtedness of the British Government in the United States though incurred before the entrance of the United States into the war, the Secretary of the Treasury regrets that he can give no assurances in this respect.

I offer for the record a letter from Lord Northcliffe to Mr. Morgan, dated July 12, 1917, repeating that Mr. McAdoo declined to pay the loan.

(The document referred to was marked "Exhibit No. 2818", and is included in the appendix on p. 9246.)

Mr. **Brown.** I offer for the record another letter unsigned, from one of the partners of J. P. Morgan & Co., to Lord Northcliffe, on July 13, 1917, in which the next to the last paragraph is pertinent here reading [reading]:

> Should the American Treasury not wish to advance you the money to take up the whole demand loan, we would suggest that the British Government be permitted by the American Government to reestablish the balance of the loan in such a way that it shall have a definite due date. This can only be done by the issue of some security in the New York market, which, if the market would take it, would enable you to pay off the balance of the demand loan.

(The document referred to was marked "Exhibit No. 2819" and is included in the appendix on p. 9246.)

In other words, there was a possibility at that time of floating another British secured loan on the American market to take up the demand loan.

Mr. Leffingwell. Does that say that?

Mr. Morgan. If the Treasury permitted.

Mr. Brown. Which Treasury, Mr. Morgan, the British or the American?

Mr. Morgan. Our Treasury.

Mr. Brown. If the American Treasury permitted?

Mr. Morgan. Yes.

There was likelihood of floating another secured loan on the American market.

Mr. Whitney. If the market would take it.

Mr. Morgan. If the market would take it. It was pretty well guarded.

Mr. Brown. I offer for the record cable no. 47701 of July 13, 1917, which needs no comment.

(The document referred to was marked "Exhibit No. 2820", and is included in the appendix on p. 9248.)

Mr. Brown. I offer for the record a long letter, unsigned, from one of the partners of J. P. Morgan & Co. to Lord Northcliffe, dated July 19, 1917, in which the same situation is outlined in more detail.

(The document referred to was marked " Exhibit No. 2821 " and is included in the appendix on p. 9248.)

Mr. Brown. Paragraph 1, toward the end of the letter [reading]:

> By the issue and sale of British Government short-time notes, secured by collateral. The extent to which this would be practicable, no doubt, would depend very largely upon our own Government's requirements from our money markets.

In regard further to the transfer from loan no. 1 to loan no. 2, I offer cable no. 47952 of July 23, 1917.

(The document referred to was marked " Exhibit No. 2822 " and is included in the appendix on p. 9251.)

Mr. Brown. I also offer cable no. 49272 of August 2, 1917. This is a month after, apparently [reading from "Exhibit No. 2823"]:

> As no satisfactory solution of the matter had been made, T. W. Lamont, with the approval of Lord Northcliffe, conferred at length Monday in Washington with Secretary of the Treasury. He was cordial and cooperative in desires expressed, but explained that the demands of Allies upon Treasury were such that it had no funds available to turn over for prompt liquidation of present demand loan, either in whole or in part.

(The document referred to was marked " Exhibit No. 2823 " and is included in the appendix on p. 9251.)

Mr. Brown. There is nothing of importance there until on the second page of the cable.

Mr. Lamont. You are reading into the record the whole cable?

Mr. Brown. The whole cable is entered on the record [continuing reading from "Exhibit No. 2823"]:

> As a second measure, we are discussing among ourselves the possibility of making a comparatively early issue of $200,000,000, 1-year British Treasury notes, secured by collateral now under demand loan and convertible like the last British issue, into 20-year bond—our idea being to try to get present banks and ourselves, who are carrying demand loan to underwrite substantial portion of this note issue, if not the whole of it, on the theory that if the notes do not sell to the public, these institutions will be little if any worse off than

now, and if they do sell, they will be better off to the extent of such sales. We could hardly hope to put out such notes so that the interest cost to British Treasury would be less than 8 percent per annum. Even this, however, we should consider preferable to present unsatisfactory and somewhat dangerous position of loan. Frankly, we have been much disappointed in the sale of $100,000,000 Dominion of Canada issue, see our no. 47895, and we may find it unfeasible to develop foregoing suggestion.

Further along it says [reading]:

> Secretary of the Treasury has given his tentative approval to our suggestion of a 1-year-note issue, and today we discussed with him our suggestion of short-term Treasury bills in event 1-year notes were not feasible. He has reserved his decision on this suggestion, but we shall keep in touch with him.

I enter into the record a memorandum from which an extract was read this morning.[1] It is a memorandum of the conversation at the Federal Treasury on Monday, July 30, 1917.

(The document referred to was marked "Exhibit No. 2824" and included in the appendix on p. 9252.)

Mr. **Brown**. The only point relevant here is paragraph (F) [reading]:

> The Secretary then asked whether we thought we could get up a note issue. I told him that that too we had been discussing and would do our best to work out practical suggestions, keeping in touch with him. In this connection, let me add that on the subsequent day, July 31, I talked with Crosby on the phone, explained that we were considering a 1-year convertible note, and were doing all we could to carry out McAdoo's and his ideas both on a note issue and on selling collateral. Crosby said that that met their hearty approval.

In other words, there was the suggestion of a $200,000,000 secured note issue, which was approved very definitely by the American Treasury, is not that correct. Is not that a correct interpretation of these notes?

Mr. **Lamont**. Approved?

Mr. **Brown**. Approved by the American Treasury.

Mr. **Whitney**. They approved the idea, but 2 days later Mr. Lamont says here on the next line, he told them it was not practical.

Mr. **Brown**. I am coming to that.

I offer for the record a letter to Mr. McAdoo dated August 3, 1917, from Mr. Lamont.

(The document referred to was marked "Exhibit No. 2825" and included in the appendix on p. 9254.)

Mr. **Brown** (reading):

> As I told Mr. Crosby over the telephone the other day, we are working on both the suggestions that you made to me in Washington, namely, first, the disposition, as rapidly as the market will absorb the securities without depressing it unduly, of collateral.

Further along [continues reading]:

> Second, the question of a 1-year collateral British note issue, convertible into a longer term bond.

Then, further down [continues reading]:

> As yet, however, we have not received much encouragement upon the latter plan.

Mr. **Whitney**. That whole letter is in, but, of course, the bulk of the letter is about Treasury bills.

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[1] See supra, p. 8991.

Mr. **Brown.** Yes; I am coming to the Treasury bills in a moment. I am entering the whole letter.

I offer for the record cable no. 40419, and also cable no. 40420, both of August 3, 1917.

(The documents referred to were marked "Exhibits Nos. 2826 and 2827", respectively, and are included in the appendix on p. 9255.)

Mr. **Brown.** I read from "Exhibit No. 2827":

> Referring to my 40419, it appears that Sir Hardman Lever has sent long cable to Chancellor of the Exchequer giving his views on the financial situation with you, and hinting that there was possibility that certain repayments might be made to you out of the savings on the amounts allotted by McAdoo for British requirements during coming months. He also mentions that certain sums might be repaid by Russia out of the amounts coming to that country from Washington.

I think that is the question that Mr. Rathbone and Mr. Leffingwell will be able to answer. That was not a procedure that was viewed with favor by the Treasury, was it, to effect savings out of amounts allotted and applied in some other way?

Mr. **Leffingwell.** I am not sure that I understand that, Mr. Brown.

Mr. **Lamont.** This is a cable from London, reporting at second hand something that was said to them by somebody else.

Mr. **Brown.** The views of the Chancellor of the Exchequer are what are being quoted.

Mr. **Rathbone.** The Treasury never authorized or expected that. As I tried to explain this morning, the money when we lent it was theirs to do with as they pleased, but if any money that we had advanced for purchases in the United States had been applied by the British Government to make any payment on account of the so-called Morgan overdraft, we would have had a very serious and acrimonious discussion with Hardman Lever as soon as we had gotten the report showing that that had been done.

Mr. **Brown.** Not only just the application specifically to the demand loan, but any such saving would have been disapproved of?

Mr. **Rathbone.** What I mean by that is that he had $10,000,000 to pay on this contract or that contract for food, steel, or one thing and another, and he found he did not have to pay so much right away, and if he could save something, that apparently this was the suggestion, he would apply it on the overdraft.

Mr. **Brown.** Whereas the Treasury's idea was that if he saved anything that was to be taken into consideration in his next demand for a further advance?

Mr. **Rathbone.** Certainly.

Mr. **Leffingwell.** I think there is something in there about that suggestion in regard to Russia, which is different, is it not?

Mr. **Rathbone.** Yes.

Mr. **Leffingwell.** Am I not right in thinking that in that regard there was presented by the British Government a suggestion that at the time the United States entered the war they should assume the responsibility of the Russian contracts and relieve the British Government of those contracts, and there was a question about a set-off of a credit due to England which in the last analysis the American Treasury rejected in regard to those Russian contracts.

Am I mistaken about that?

Mr. **Rathbone**. Of course, this was before I was in the Treasury. I always thought that the attitude we took toward Great Britain in regard to the Russian contracts was a little out of line on our attitude on different questions. I think it may be true that we advanced money to Russia to repay Great Britain the amounts that Great Britain had spent on her behalf in the United States until the Kerensky government fell.

After that we took a rather arbitrary, possibly a little unfair, position, and did not relieve the British Government from the contracts that they had made for the benefit of Russia.

I think that is referred to in the article in Foreign Affairs that was put in evidence this morning.[1]

Mr. **Leffingwell**. In other words, that sentence which refers to Russia, they might well at that time have thought that question was under consideration.

Mr. **Rathbone**. It might have been thought it was allowed for.

Mr. **Leffingwell**. But it was disallowed, was it not?

Mr. **Rathbone**. I am not sure, whether, before the Russian Government fell, it was or not. It was before my day in the Treasury.

Mr. **Brown**. Just to get the record straight on this point, I will offer a group of cables and letters, and to establish it for the record, an issue of Treasury bills, with 90-day maturities was brought out was it not, approximately $200,000,000 of it kept afloat, and the proceeds applied to reduce the demand loan?

Mr. **Whitney**. It was never to have been more than $150,000,000, and we never got up to that. $120,000,000 was the top.

Mr. **Brown**. $120,000,000, roughly, was kept afloat, and the proceeds applied to the demand loan.

To complete the record, I offer the following documents:

Letter from Secretary McAdoo to Mr. Lamont, dated August 13, 1917.

Letter from Mr. Morgan to Secretary McAdoo dated August 16, 1917.

Cable No. 49662, of August 16, 1917, from Morgan, New York to Morgan, London, for E. C. Grenfell.

Letter from Secretary McAdoo to Mr. Morgan, dated August 20, 1917.

Letter unsigned from Morgan & Co., to Mr. McAdoo, dated August 21, 1917.

Letter, presumably to the members of the syndicate organized for the distribution of the Treasury bills, from J. P. Morgan & Co., dated August 22, 1917.

Letter from Secretary McAdoo to Mr. Morgan, dated August 23, 1917.

Press release of Secretary McAdoo on August 23, 1917.

Letter from Sir Hardman Lever to J. P. Morgan & Co., dated August 23, 1917.

Letter from Mr. Morgan to Secretary McAdoo, dated August 24, 1917.

I think that completes that.

(The documents referred to were marked "Exhibits Nos. 2828 to 2837", inclusive, and are included in the appendix on pp. 9255 to 9259.)

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[1] See "Exhibit No. 2781", appendix, p. 9207.

Mr. **Rathbone.** May I make that Russian situation clear?

Mr. **Brown.** Please do so.

Mr. **Rathbone.** I would like to read this extract from the article mentioned:[1]

> Before we entered the war our manufacturers had quite generally refused to enter into contracts to supply commodities to Russia unless they received some assurance that Russia would make the payments she obligated herself to make under the terms of the proposed contracts. Great Britain supplied the credit required by our manufacturers on Russian orders and in effect guaranteed the payments which Russia obligated herself to make under such contracts. After we entered the war, we, from time to time, loaned to Great Britain and not to Russia, the dollars required to make the payments under these contracts as they became due, because the obligation was incurred by Great Britain before we entered the war. Thus Great Britain was called upon to pay and did pay out dollars we loaned to her (not to a very significant amount in comparison with the aggregate of our loans to Great Britain) in discharge of her old obligation of guaranty under these Russian contracts. To some extent Great Britain recouped these expenditures through the utilization or disposition of material delivered under such contracts, but on balance some small part of our dollar loans to Great Britain was for the purpose of meeting obligations in the United States entered into by Great Britain before we entered the war, but which were settled after we entered the war, and not for the direct benefit or use of Great Britain but for the use and benefit of Russia.

That is set out as an exception to our general policy of the Treasury, that we would make the loan to the country that got the materials. That is, we did not take into account whether it was more popular to lend to France or Great Britain, as it was in the early days of the war, or whether an Italian obligation was a better asset to have in our portfolio than, say, a British obligation. We dismissed those things. We lent and tried to lend to the country that got the materials. This Russian situation was an exception to that general rule.

Mr. **Brown.** Just closing up this Treasury bill episode, those were unsecured, were they not, Mr. Lamont?

Mr. **Lamont.** Oh, yes; straight Treasury bills.

Mr. **Brown.** I offer a letter from Mr. Crosby to Secretary McAdoo, dated August 20, 1917, of which the last sentence in the first paragraph reads:

> There would be one advantage, however, in having it free, namely, that the British Government, by having free collateral, would be able to meet some of the various emergencies which are constantly arising.

(The document referred to was marked "Exhibit No. 2838" and included in the appendix on p. 9259.)

Mr. **Brown.** Do you think that is a correct assumption of Mr. Crosby's there, that those collateral securities could be used either under a note issue or for sale? Is that what he presumably had in mind in being glad to obtain some free collateral for the British?

Mr. **Lamont.** I cannot speak for Mr. Crosby.

Mr. **Brown.** Mr. Leffingwell, do you recall that incident in the Treasury, whether British Treasury bills were secured or unsecured?

Mr. **Leffingwell.** I do not remember that.

Mr. **Brown.** I offer for the record cable no. 49688 of August 17, 1917, from J. P. Morgan to E. C. Grenfell, after the Treasury bill matter was fairly well settled [reading "Exhibit No. 2839"]:

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[1] Ibid.

You will understand that the issue of Treasury bills 49662 does not at all preclude the idea of a secured note for a longer time a little later on when the market for that kind of security becomes reasonably good again.

(The document referred to was marked "Exhibit No. 2839", and appears in full in the text.)

Mr. BROWN. I offer for the record, cable no. 40742, dated August 20, 1917, from Morgan, London, to Morgan, New York:

Following for Sir Hardman Lever from Chancellor of the Exchequer:

Your telegram 2211 of August 16. I accept your views as to inadvisability of issue at present of British notes. I concur in proposed Treasury bills scheme.

(The document referred to was marked "Exhibit No. 2840" and included in the appendix on p. 9260.)

Mr. BROWN. In other words, Mr. McAdoo and Mr. Crosby had accepted the idea of a secured British note issue and Sir Hardman Lever and the Chancellor of the Exchequer, the British Treasury, in short, turned the idea down after J. P. Morgan & Co. had found it impracticable.

Mr. WHITNEY. Oh, no; you have to read into the record—you said it was in—the fact that a day later we called them up and said it would be an 8-percent basis to the British, then said we had no encouragement, and Mr. Lamont advised Mr. McAdoo that it was impractical.

I said the balance of the letter had to do with Treasury bills. It is right in that letter. Mr. Lamont said that we got no encouragement, and therefore suggested we ought to go to the Treasury bills. Neither of them turned it down. It was a question of the impossible to do.

Mr. BROWN. This cable says, "I accept your views as to inadvisability of issue." That is, Sir Hardman Lever agreed with you it was inadvisable. But a day or two before the American Treasury had considered it——

Mr. WHITNEY. Three weeks before.

Mr. BROWN. Oh, I beg your pardon.

Mr. WHITNEY. May I read that cable?

Mr. BROWN. Please do.

The CHAIRMAN. What is its date?

Mr. WHITNEY. In that memorandum of Mr. Lamont's of his talk with Mr. McAdoo and Mr. Crosby, it says in paragraph (F):

The Secretary then asked whether we thought we could get up a note issue. I told him that that, too, we had been discussing, and would do our best to work out practical suggestions, keeping in touch with him. In this connection, let me add that on the subsequent day, July 31, I talked with Crosby on the phone, explained that we were considering a 1-year convertible note, and were doing all we could to carry out McAdoo's and his ideas both on a note issue and on selling collateral. Crosby said that that met their hearty approval. Further, in this connection, on Thursday, August 2, I talked with McAdoo over the phone again and explained our fear that a 1-year note issue might not be practical, and suggested British Treasury bills (please refer to our letter to the Secretary of this date, also our cable to Mr. Grenfell of London of Aug. 2).

In other words, it was away back on August 2 that we had told the United States Treasury that we did not believe we could do a 1-year note.

Mr. **Brown.** The point, Mr. Whitney, I think is this: That the indication has been given in the testimony that it was the American Treasury that said, "Keep out of the market; we want it for the Liberty bonds." The record here seems to indicate that at first, at any rate until possibly conditions were made clear to them, no doubt——

Mr. **Whitney.** There is no doubt whatever the American Treasury approved the 1-year notes, if we could have done it.

Mr. **Brown.** The British Chancellor of the Exchequer did not.

Mr. **Whitney.** No; excuse me. We told our Secretary we could not do it, and Sir Hardman Lever, who was the Chancellor of the Exchequer's representative, advised him—because, obviously, the British Government would have preferred just as an academic question to put out a 1-year note rather than a 90-day bill.

I do not have Lever's note to the Chancellor, but undoubtedly he told him it was not a practical situation. He did not turn it down, he just agreed with Lever that it was inadvisable.

Mr. **Leffingwell.** I think I can help a little about the Treasury's policies:

There are two kinds of preemption. One is the unauthoritative preemption of the market by the mere fact of the vast issues of Liberty Loans that took place as a matter of fact with the First Liberty Loan, and to a very large extent those Liberty Loans controlled the bond market and absorbed something more than all the investors' funds in the country from the time of the declaration of war until considerably after the Armistice. That was something automatic. Assuming the Treasury of the United States was determined to exercise the sort of policies it could hope to put through in relation to the financing of the war and to avoid inflation, that meant that the Treasury was going to sell all the bonds it could and raise all the taxes it could, and that combination of all the bonds and all the taxes amounted to considerably more than all the savings of the American people. That was the kind of preemption that arises from the facts without any Treasury decree.

Treasury policy as distinguished from the mere fact of these great bond issues and these great taxes, developed gradually over the period from the declaration of war in a series of steps, and you will find that in the summer the Treasury is so concerned with the gravity of the demands made upon it by the Allies, not merely by Great Britain but by all the Allies, the immensity of the sums that the Allies conceived were essential to their purposes in connection with the war, that it was of some concern to see how these problems could be put off, problems of maturity and problems of this and that.

The Treasury had towards the fall and early winter admonished the people who brought in foreign government bond issues and declared it would not tolerate even to the nationals of France an issue of French bonds. That came along in the fall.

Then about the 10th of January the Secretary of the Treasury took another step, and he assumed an affirmative preemption of the capital market and asked the Federal Reserve Board, pending the action of Congress, to visé all capital issues that came into this market. That was done about the 10th of January.

Then about some time in April, in the War Finance Corporation Act, on the recommendation of the Secretary of the Treasury, a Capital Issues Committee was created by act of Congress. That confirmed and strengthened the measures that were taken in January. That Capital Issues Committee offered to supervise all issues that came into this market.

That, of course, was supplemented by the Treasury's supervision of the financial policies of the Allies.

I have been trying from my memory to think back over those times and give you as good an answer as I can, and I believe that is about the way the thing developed, as to the preemption that followed as a matter of fact from the enormous loans and taxes the Government itself was floating and the semiauthoritative preemption by the Capital Issues Committee which was created by the Federal Reserve Board at the request of the Secretary, and the further preemption by the act of Congress in April. I think it developed something like that.

Mr. Brown. Thank you, Mr. Leffingwell. I think the point of interest here is, this is the first of several suggestions, let us say, of the American Treasury, that there might be some refunding, from operations on the American market by the Allies direct.

And this, like all the others, until after the armistice, was found impossible by reason of money-market conditions.

I think the thing that is of interest to the committee is that right at the instant of our entry into the war it was discovered that the financial markets were in such shape, not only by reason of the war, but I think by reason of the financing that had gone on before—is not that a fair statement—that it would be impossible to do anything but carry the whole burden on the American Treasury?

Mr. Leffingwell. It really arises, more than anything else, from the immense war effort that the American people themselves made and the American Congress and the American Army and Navy, because our total expenditures during the war period were almost $40,000,000,000, and of that amount about $10,000,000,000 were loans to the Allies. Then you can say that the demands upon our people, on our resources in taxes and loans, were in proportion of 3 to 1, for ourselves and the Allies, the total being $40,000,000,000. I think that it is approximately what happened. Our entry into the war was the dominating factor in the bond market.

Mr. Brown. At this time $40,000,000,000 was not in the market. It was only $2,000,000,000 of the First Liberty Loan.

Mr. Leffingwell. Don't say "only $2,000,000,000", Mr. Brown, because I was there and I remember that it did not seem like "only" at all.

Mr. Brown. At that time the market was perhaps half and half preexisting Allied obligations and the Liberty Loan?

Mr. Leffingwell. When the United States entered the war, the public debt was perhaps $1,000,000,000, and when the Secretary of the Treasury sent for all the people who knew about those things and asked their advice about the First Liberty Loan, I think the highest man among the bankers of America said he could do $500,000,000 and no more. And he went out to get $2,000,000,000 and he got it. That is what I mean by preemption in fact. He got $2,000,000,000 when the best opinion was that half a billion was all he could do. That was preemption in fact.

Mr. **Brown**. There is just one other point, that this, however, was a refunding issue. It was not a proposal to go out and get new money, as Mr. McAdoo had had to do. It was, as Mr. Lamont's cable explained, the attempt to go to the banks that already held this loan and say, "Take an issue with a definite date of maturity instead." And it was found impossible for the market to take even that.

Mr. **Leffingwell**. About that time I suppose we were all engaged in the preparations for the Second Liberty Loan, which came early in the fall. The process of raising $3,000,000,000 then was already being presented to the bankers of the country. I have no doubt that they had to take into account in connection with any operation which truly in fact was a refunding of an old issue, the fact that their clients, their depositors, their investors, and all the people they knew with any money or any power to borrow money were going to be immediately subjected to an appeal from the Treasury of the United States to buy Liberty bonds again.

There is one further thing I want to say to you about that preemption, just to clear up the record. I do think the Treasury was always more tolerant about the renewal of Treasury bills that did not involve a public issue. I imagine that that authoritative preemption did not extend to Treasury bills; in many cases I think the Treasury encouraged the renewal of Treasury bills as far as that was practicable for quite a long period after the other preemptions were made pretty effective.

Does what I say accord with your recollection?

Mr. **Rathbone**. Yes.

Mr. **Lamont**. Of course, Mr. Brown, too, it became clear, did it not, that the cost to the British Government would be about 8 percent on this secured-loan issue, that a loan issued at a high rate would manifestly interfere with Secretary McAdoo's operations in the Liberty Loan matter, and that was a very prime consideration?

Mr. **Brown**. The only point I was trying to make, Mr. Lamont, was this: The tremendous involvement of the market, which made it essential that all the strain be carried on the Treasury. Of course, as events turned out, that was a very unfortunate strain, because if that issue had been refunded into a longer-term bond it would have had to have been paid, and if it had been paid by Treasury advances, the Treasury advances should still be outstanding in the war debts. Is not that a fair assumption?

Mr. **Whitney**. There are three or four assumptions in there that may be pretty fair.

Mr. **Brown**. I offer cable no. 49765 of August 20, 1917, from Morgan to the Chancellor of the Exchequer, from Lever.

(The document referred to was marked "Exhibit No. 2841", and is included in the appendix on p. 9260.)

Mr. **Brown**. I offer cable no. 49766 from J. P. Morgan to E. C. Grenfell, under date of August 20, 1917.

(The document referred to was marked "Exhibit No. 2842" and is included in the appendix on p. 9260.)

Mr. **Brown**. I offer cable no. 44102 of October 23, 1917, from Morgan, London, to J. P. Morgan in New York.

(The document referred to was marked "Exhibit No. 2843" and is included in the appendix on p. 9261.)

Mr. **Brown**. I offer a letter from Mr. Morgan to Mr. Grenfell, dated November 2, 1917.

(The document referred to was marked "Exhibit No. 2844" and is included in the appendix on p. 9261.)

Mr. **Brown**. Only one paragraph is relevant [reading]:

> As regards finances, we have been wholly unable to find any drastic and thorough-going way of reducing the call loan. Both Reading and Northcliffe have done their best with our Government people, but they have not been able to make much impression. We are, however, continuing to sell very quietly and without hurting the market, and have been quite successful even in the bad times now upon us, so that the loan is very gradually—much too gradually—being reduced. The British Government now keeps with us a very satisfactory balance which it has not allowed to run down for some little time, and everyone is working with the best feeling in the matter. There are two places where the British Government may receive quite large sums:
>
> (1) From the payment for ships taken from them, which should come very soon, and
>
> (2) From the possibility of either France or Russia getting a large advance and using it to pay off some of their indebtedness to the United Kingdom, in which case the United Kingdom would pay us the amount so received in reduction of the loan.

Mr. **Rathbone**. May I say one thing about your suggestion of selling 1-year maturities?

Of course, if the British Government had sold 1-year notes—secured notes or unsecured—and applied the proceeds towards the reduction of the demand loan, at the end of a year the Treasury would have been confronted with the necessity of either letting the British Government default on its obligations in America during the war—which was unthinkable—or lending the money to take them up.

It was much better for the Treasury to let the demand loan stay as it was, because we did not make advances to pay anything on the demand loan. We did not let them sell the collateral to liquidate the demand loan for a considerable time, until they did it in a way that the Treasury could approve without hurting the market, and we did not let them pass it out in the hands of the public. It was much better for us to let it stay there.

Mr. **Brown**. I think with that question we can take up very well the September and February maturities. Those large balances, by the way, of course, were from Treasury funds, were they not?

Mr. **Lamont**. What large balances?

Mr. **Brown**. These large balances that Mr. Morgan is mentioning.

Mr. **Lamont**. He does not mention "large balances", Mr. Brown, if you will excuse me for correcting you.

Mr. **Brown**. Satisfactory balances.

Mr. **Lamont**. Satisfactory balances.

Mr. **Brown**. Which was about how much, do you recall?

Mr. **Lamont**. I have not the slightest recollection.

Mr. **Rathbone**. On the question of balances, that was the trouble that the Treasury had with both the British and the French Governments. They would ask for a loan on the theory that they would have certain expenses to meet during a month, say. Then they would find that they did not have to spend all that money in a month, and they had too-big bank balances. It took a little while to adjust that. I think you will find that by, say, the summer of 1918, 18 years ago—I am guessing a little in the times—that situation was entirely remedied. It was remedied in March with the French, where we found out they had a bank balance of $80,000,000, and we told them $30,000,000 was enough for them to have. We kept their bank balances at approximately $30,000,000 to take care of emergencies.

The British we did not settle quite so easily. The representatives of the British Treasury seemed to like to have very large balances.

It finally was not settled until we said we absolutely would not advance them the money to have those balances, that we would advance them only so much, and if they found their expenditures on Thursday were running over, they could come around to us on Friday and get the money that they needed, but we would not tolerate any longer the keeping of large bank balances by those Governments.

It was said very firmly, and finally very effectively. It had to be said a good many times.

Mr. LEFFINGWELL. You had about the same trouble with your own disbursing officers, did you not?

Mr. RATHBONE. Oh, absolutely. It may be worse with our own Army disbursing officers. But we remedied that after awhile, too.

Mr. BROWN. I wish to offer for the record, to complete this particular point, a memorandum dated January 19, 1918, memorandum for A. E. N.

Mr. LEFFINGWELL. By whom?

Mr. BROWN. It is a Morgan document. It is not exactly clear who it is from or who it is for. It is A. E. N.

Mr. WHITNEY. What date, Mr. Brown?

Mr. BROWN. It is January 18.

Mr. LAMONT. January 19.

I think, Mr. Brown, that was a memorandum for one of the partners of Drexel & Co., Arthur E. Newbold. I think so. I would not be sure.

(The document referred to was marked "Exhibit No. 2845" and is included in the appendix on p. 9262.)

Mr. BROWN. I offer for the record cable no. 61200, of January 19, 1918, from Morgan, New York, to Morgan, London.

(The document referred to was marked "Exhibit No. 2846" and is included in the appendix on p. 9263.)

Mr. BROWN. I offer for the record, cable no. 61326, of January 23, 1918, from T. W. Lamont to E. C. Grenfell.

(The document referred to was marked "Exhibit No. 2847" and is included in the appendix on p. 9264.)

Mr. BROWN. They do not need to be commented on except this, that they concern the application, do they not, of the ship money to the demand loan?

Mr. LAMONT. Yes.

Mr. BROWN. If you have no objection, I think we can drop the demand loan at this point and take up the ship money when we consider the February 1 maturities.

To complete the demand loan, I would like to offer for the record a memorandum prepared by J. P. Morgan & Co., at our request, showing and identifying, insofar as possible, the sources of money used to pay off demand loans nos. 1 and 2, which memorandum has been checked by the committee's staff and found accurate.

The CHAIRMAN. That will be received and properly identified.

(The document referred to was marked "Exhibit No. 2848" and is included in the appendix on p. 9264.)

Mr. WHITNEY. It shows an item on that that answers some of your Russian question. There was one item of $598,000.

Mr. BROWN. That was long afterward.

That is all I have, Mr. Chairman.

The CHAIRMAN. The committee will be in recess for 10 minutes.

(Thereupon a short recess was taken.)

FIRST UNITED STATES REPAYMENT OF ALLIED PRIVATE DEBT

The CHAIRMAN. The committee will proceed.

Mr. RAUSHENBUSH. Mr. Chairman, I would like to ask the witnesses some questions about the first of the foreign loans that were paid off out of the Treasury, which appears to be an Italian loan of $25,000,000, which was issued in 1915, was extended for a year, and fell due then on October 15 of 1917.

Simply in order to establish the agreements concerning that loan, which was the Lee, Higginson loan, I want to offer the agreement and letters in connection with it, which show its existence and history up to this point.

(The documents referred to were marked "Exhibits Nos. 2849 to 2855", inclusive, and are included in the appendix on pp. 9265 to 9272.)

Mr. RAUSHENBUSH. Mr. Lamont, awhile ago, if I remember you correctly—I mean, weeks ago, before history took place—you were stating—and I want to be sure I remember you correctly—that you thought all these loans were pretty good; that they were going to stand up; that they were going to be paid off.

Mr. LAMONT. I spoke in great confidence, Mr. Raushenbush, of all the loans which were issued under our leadership. We had nothing to do with the Italian issue at all, if it was an issue.

Mr. RAUSHENBUSH. If it was an issue?

Mr. LAMONT. If it was an issue. I do not think it was a public issue. Was it?

Mr. RAUSHENBUSH. You held a million dollars, did you not, as participants in it, originally?

Mr. LAMONT. Very possibly.

Mr. WHITNEY. We bought a million dollars.

Mr. RAUSHENBUSH. You bought a million dollars and were participants in the loan?

Mr. WHITNEY. Subscribers.

Mr. RAUSHENBUSH. You would not necessarily apply that statement, then to other loans than your own; is that the way I interpret it?

Mr. LAMONT. I was not attempting to pass upon all those loans at that time. I was describing the loans in which we led, Mr. Raushenbush.

Mr. RAUSHENBUSH. All right.

Here we find—and this immediately becomes a Treasury question, on which Mr. Leffingwell and Mr. Rathbone can probably help—that this becomes a sort of an opening question. This was the first. We see little similarity between this and that distinction that was drawn by the State Department in October of 1914, which Mr. Lamont and Mr. Morgan characterized here as being a distinction that they could not follow, a distinction between loans and credits that they thought was artificial.

Here came along this Italian loan, these maturities on October 15. Does either of you gentlemen remember the circumstances, and can you talk about them, or would you prefer to have me go through these documents as we have them listed here?

Mr. Leffingwell. Mr. Rathbone could not possibly remember it unless he learned something after, could you? Did you learn something about it afterward?

Mr. Rathbone. Of course, I was not with the Treasury then. I understood that loan was made by the United States Treasury to Italy to take up the Italian obligations held by the American public in the same amount, to be repaid—I do not know whether "repaid" is quite the technical word, but I do not think of any better—out of the American dollars received by Italy for lire furnished the United States Government to take care of our troops in Italy.

As a matter of fact, the dollars received from lire were not sufficient to pay the entire amount of that $25,000,000-odd loan.

"To repay" is wrong, because there was no repayment, but the dollars received by Italy for the lire which she sold to the United States were used by Italy to pay for American purchases in the United States before we advanced any further money.

So in effect it was carried into the account.

The amount as shown by the Treasury's report was $14,425,000-odd, but there were other Italian assets, probably not a great many, that were used in this country. What I have in mind particularly is the Italians finally persuaded us, on certain conditions, to be prepared to give them $25,000,000 to maintain the Italian exchange. They complained very bitterly that we had pegged French exchange and British exchange but we had not pegged the Italian exchange. It was pretty hard to defend our pegging the exchange of two of the principal governments and refusing to peg the exchange for the other government. We finally said we would invest $25,000,000, if necessary, to see what could be done with Italian exchange on certain conditions.

One of the conditions was that Mr. Kent—I have forgotten his official position in the Government at that time——

Mr. Leffingwell. Supervising the foreign exchanges for the Federal Reserve Board, was he not?

Mr. Rathbone. Yes; I think that was it—should have charge of their operations.

Curiously enough, we did not have to spend that $25,000,000 or any part of it, because in those operations the Italian Government made a profit, as I recall it, of about $5,000,000. And that $5,000,000 profit the Italians made we said they would have to spend for their purchases in the United States before we would advance them any more money, and it was in fact so spent.

Mr. Raushenbush. Do you describe that first $25,000,000, then, as a sort of reciprocal loan?

Mr. Rathbone. I have not the documents before me as you have. I am just telling you my general recollection, that it was to be taken care of out of the dollars Italy got for supplying lire to our troops.

Mr. Raushenbush. I have an impression, Mr. Rathbone, from what you say, that there was a confusion there, perhaps, between two different transactions. In the first one we find no discussion of exchange of rates or the like, which there would be if it were a reciprocal-credit matter.

This first one, this $25,000,000 about which we are talking now, looks like simply an outright repayment.

Mr. Rathbone. You mean that Italy was to repay us out of the proceeds——

Mr. Raushenbush. No; we would repay her. We were paying off these maturities that became due.

Mr. Rathbone. No; we were advancing money to Italy, and Italy paid off her own maturities. That sounds as if it were a little captious difference, but it really is not. We really did not get the Italian maturities; we did not buy them. We advanced the money to Italy.

Mr. Raushenbush. I think you are correct on that.

Did you want to say something, Mr. Leffingwell?

Mr. Leffingwell. I thought I would perhaps answer your question a little, supplementing what Mr. Rathbone said. I have no first-hand recollection of this matter at all. Perhaps you have documents which will refresh my recollection.

Mr. Raushenbush. Perhaps we had better do it that way.

Mr. Leffingwell. But before you come to them, understand, Mr. Rathbone has pointed out there that in the annual report of the Secretary of the Treasury for 1920, exhibit 26, page 338, there appears an item, "Special credit against credits to be established for United States Government war purchases in Italy, $25,000,000."

And in exhibit 27, on page 340, the item is reported as having arisen in the period from April 6, 1917, to December 31, 1917. That is not conclusive proof that the item of $25,000,000 established as a special credit in favor of Italy was a countervailing, or, as you say, reciprocal item, but it suggested to my mind, as I think it has to Mr. Rathbone, the probability and the theory that the Treasury at the time when it was dealing with this matter, which was before Mr. Rathbone was there and before I was actually related to those things, was actually covering its anticipated war requirements from Italy for lire in this manner. That at least is a suggestion of a possibility.

Mr. Raushenbush. It is a suggestion. Perhaps you would like to reserve your comment on that, Mr. Leffingwell.

Mr. Leffingwell. I would much prefer to do so until you can give us the documents.

Mr. Raushenbush. Until we go through this.

Mr. Leffingwell. I do not remember first hand.

Mr. Raushenbush. I want to offer, without comment, a letter from the Italian Ambassador to Mr. Crosby, of September 10, 1917, in which he points out that the bankers considered the possibility of selling the bonds very slight and takes up the matter with the Treasury generally.

(The document referred to was marked "Exhibit No. 2856", and is included in the appendix on p. 9273.)

Mr. **Raushenbush**. I now offer for the record, a letter of September 17, 1917, from Lee, Higginson & Co., to Mr. Crosby, saying:

> We believe it would be impossible to extend these notes even under pressure. The investors' market for securities has fallen absolutely flat, owing to the near approach of the next Liberty Loan, and the Italian Government has no collateral to pledge which would make these notes in any way attractive to the banks.

(The document referred to was marked "Exhibit No. 2857" and is included in the appendix on p. 9274.)

Mr. **Raushenbush**. That seems, by the way, to make a distinction between loans that have a collateral behind them as being ones that might still be refunded as against loans that do not, does it not?

Then I offer for the record a wire from Lee, Higginson & Co. on October 4, 1917, in which Lee, Higginson points out to the Treasury that—

> it is absolutely impossible through no fault of our own. The fact that other governments have collateral and this Government has none and the market fields on foreign loans are as they are makes it out of the question to renew any portion of this loan. A compulsory renewal would be interpreted as a partial default and would be extremely unfortunate at this time in the midst of our own Liberty Loan campaign, when it would receive either publicly or quietly wide attention among bankers and would tend inevitably to reduce funds available for the Liberty Loan on October 15. Vast amounts of foreign loans are held in the banks and this would, in their mind, be a frightening precedent. The Government in question understands our position and agrees thoroughly with it. It seems to us some way should be figured out to establish a credit in the country in question in connection with our Government's war purchases there and thereby furnish them with funds to take up their loan here. October 5 is the date under the contract when money should be in our hands. Many are asking us about it, as the date is quite widely known, and if we are not able to say definitely after that date that the note will be paid, great anxiety will be caused.

(The document referred to was marked "Exhibit No. 2858" and is included in the appendix on p. 9274.)

Mr. **Raushenbush**. Do we not get another case there of where the bankers, in this case, anyhow, see a very definite reduction of bank credit in case Allied credit is even allowed to lag a little bit? Is not that fairly clear from that?

Mr. **Leffingwell**. It did not occur to me as you read it. Would you go back to the passage from which you draw that suggestion? I do not remember the cable.

Mr. **Raushenbush**. The part where it says [reading from "Exhibit No. 2858"]:

> In the midst of our own Liberty Loan campaign when it would receive either publicly or quietly wide attention among bankers and would tend inevitably to reduce funds available toward the Liberty Loan on October 15. Vast amounts of foreign loans are held in the banks and this would, in their minds, be a frightening precedent.

The precedent being that of letting the bonds go.

Mr. **Rathbone**. Letting them default.

Mr. **Raushenbush**. Yes; you have said that before.

Mr. **Rathbone**. I do not think it would be so much a reduction of the credit of the United States as of the willingness of the

United States to support one of the Allied Governments in the United States.

Mr. **Raushenbush.** You do not think a default of any Allied credit would have that effect, of shaking people up a little bit?

Mr. **Rathbone.** I think it would have shaken them up tremendously, but I do not think that the credit of the United States Government would have been affected.

Mr. **Raushenbush.** Or their ability to raise money?

Mr. **Rathbone.** They might think that the United States Treasury was not able to raise enough money to prevent an Allied country's obligations going in default on our markets. They might have thought that.

Mr. **Raushenbush.** If it had gotten to a point where they had been forced to support these Italian loans at some terrific rate, 8, 9, or 10 percent, it would have had a bad effect on your own Libertys, would it not?

Mr. **Rathbone.** I think it would have had a terribly bad effect on the market; yes.

Mr. **Raushenbush.** Coming back to the question of whether these private loans were really good, there is a letter from Mr. Crosby to the Attorney General on September 28, 1917, in which he said [reading]:

> The Italian Ambassador is now urging, with very great concern, that funds should be lent to his Government in order that these bonds may be taken up, stating that his own Government is wholly without means to meet their indebtedness.

(The document referred to was marked "Exhibit No. 2859" and is included in the appendix on p. 9275.)

Mr. **Raushenbush.** Is that your own interpretation? Oh, you were not there in September.

Mr. **Rathbone.** I was not there, but I do not see where they could get the dollars.

Mr. **Raushenbush.** It was probably true, was it not——

Mr. **Rathbone.** I believe it was true.

Mr. **Raushenbush.** That at the same time these Allied loans, whether of Italy, for instance, or some of the other Allies, became precarious matters?

Mr. **Lamont.** Are you alluding to all the Allied loans or just two or three of them?

Mr. **Raushenbush.** I am going to allude to them all.

Mr. **Rathbone.** Of course, it was one thing for Italy to find the dollars in war conditions to pay the loan.

Mr. **Raushenbush.** Yes.

Mr. **Rathbone.** And an entirely different thing as to the ultimate payment of those loans by Italy after the war conditions had passed.

Mr. **Raushenbush.** That was just a matter of finding money enough to keep the exchange and pay off the maturities as they came due.

Mr. **Rathbone.** Because if they could not find the money to keep the exchange until we loaned them some money for that purpose, the Italian exchange went to——

Mr. **Raushenbush**. You see, this is not quite in point, but it is interesting in any discussion of a policy of allowing loans and credits.

Here you have the Italian Ambassador saying in September—that was 5 or 6 months after we go into the war—that his Government was absolutely without means to meet the indebtedness, and the British had said it on July 1, that their Government was without funds or means and would have to rely almost exclusively on the United States to pay.

Mr. **Whitney**. The British had no maturity, of course.

Mr. **Raushenbush**. Not at this time; no.

Mr. **Whitney**. Not at that time.

Mr. **Raushenbush**. But the documents introduced the week of the 15th or 16th show that Sir Cecil Spring-Rice, I believe, was going to our Treasury and our Department of State and saying very clearly, "On July 1 we are"—I think I remember the vulgar phrase I used—"bust." He did not say that. He did not use that phrase. He said that they could not carry on from that point.

Then we want to go on here a minute to note the rest of this letter to the Attorney General. Do you remember this letter, Mr. Leffingwell, this letter to the Attorney General?

Mr. **Leffingwell**. I do not seem to. I might well have known about it, but I do not seem to remember it.

Mr. **Raushenbush**. Mr. Crosby raises some interesting points here.

Mr. **Leffingwell**. Mr. Wohlforth has been kind enough to show me Mr. Crosby's letter. It does not look as if I had written it, because it is not concerned with law but with the military position, the general nature of the financial problem, is it not?

Mr. **Raushenbush**. It is asking for a vise, for an O. K. from the Attorney General on this particular transaction. It reads [reading from "Exhibit No. 2859"]:

> **Dear Mr. Attorney General**: I have the honor to request that you be good enough to advise this Department as to whether, under the operations of section 2 of an act of Congress approved September 24, 1917, copy enclosed, the Secretary of the Treasury, with the approval of the President, would be authorized to lend money to a foreign government engaged in war against Germany, which money would, with the knowledge of the Secretary of the Treasury, be used for paying any obligations of such government issued before the date of the act and maturing after that date.
>
> In order that the particular difficulty now presented may be better understood, permit me to state that the Italian Government, some time last year, borrowed $25,000,000 in this country on relatively short-term bonds, which were issued through the various Boston banking houses. These bonds mature early in October of this year. The Italian Ambassador is now urging, with very great concern, that funds should be lent to his Government in order that these bonds may be taken up, stating that his own Government is wholly without means to meet their indebtedness. If money were loaned under the operations of the act of Congress above mentioned, the Secretary of the Treasury would indeed purchase "a hereafter-issued obligation"——

Mr. **Rathbone**. He would not, of course. He would not have purchased the obligation because that is not what he did. He lent the money on the obligation of the Italian Government for the money lent, and the Italian Government paid their obligations. The United States Treasury did not buy Italian obligations, except the obligations issued by the Italian Government after we entered the war.

Mr. Crosby was not a lawyer.

Mr. **Brown**. That is what Mr. Crosby says, "hereafter-issued obligations."

Mr. **Leffingwell**. As I understand, Mr. Crosby was mistaken.

Mr. **Raushenbush**. Let me finish that paragraph [reading from "Exhibit No. 2859"]:

> If money were loaned under the operations of the act of Congress above mentioned, the Secretary of the Treasury would indeed purchase "a hereafter-issued obligation", being a proper bond of the Italian Government, the terms and conditions conforming to that statute.

Mr. **Leffingwell**. Did he contemplate buying some of these Lee, Higginson bonds?

Mr. **Rathbone**. No; apparently not.

Mr. **Brown**. That is not his language. He said he would be complying with the law in lending the money to Italy.

Mr. **Leffingwell**. I see. I beg your pardon. I was confused.

Mr. **Raushenbush** (continuing reading):

> If money were loaned under the operations of the act of Congress above mentioned, the Secretary of the Treasury would indeed purchase "a hereafter-issued obligation", being a proper bond of the Italian Government, the terms and conditions conforming to that statute. But there is reason to doubt the propriety or legality of an action which is indirectly a purchase of obligations which were issued by the Italian Government before the passage of the act—

As we get it here, he is up against the difficulty of the situation——

Mr. **Leffingwell**. That is an exposition of the law by a civil engineer.

Mr. **Rathbone**. That is where I absolutely disagree with what he said. Absolutely, there was no doubt.

Mr. **Leffingwell**. You have been getting expositions of law from lawyers all morning.

Mr. **Rathbone**. Not the slightest question as to the propriety or legality of such an action.

Mr. **Raushenbush**. You disagree with Mr. Crosby there?

Mr. **Rathbone**. Yes, sir. We had the undoubted right to do it. There was no question as to the propriety or the legality of such an action. If Mr. Crosby had had lawyers at his heels in the Treasury, they would have told him it was utterly unnecessary to go to the Attorney General of the United States for an opinion on a point that was perfectly plain.

Mr. **Raushenbush**. Were you not there?

Mr. **Rathbone**. I was not in the Treasury Department at that time. We were not consulted about that.

Mr. **Raushenbush**. Let us go on. The letter ends [reading from "Exhibit No. 2859"]:

> The matter is one of very grave concern to the Italian Government, and indirectly to this Government. I therefore venture to ask that, if convenient, you will be good enough to advise the proper course in this matter at an early date.

Then the Attorney General, on October 1, 1917, wrote to the Secretary of the Treasury as follows [reading "Exihit No. 2860"]:

> **Dear Mr. Secretary**: I am in receipt of an inquiry from the Acting Secretary of the Treasury, dated the 28th ultimo, which I understand to be this. in substance: Under the provisions of section 2 of the act of Congress, approved September 24, 1917, authorizing the Secretary of the Treasury to purchase the obligations, hereafter issued, of foreign governments then at war with the

enemies of the United States is the Secretary debarred from purchasing obligations of the Italian Government, otherwise meeting all requirements of the act, because he has knowledge that the proceeds will be used to pay obligations of the Italian Government contracted before the passage of the act? I do not think so. I base this opinion on the face of the provision. I have not stopped to inquire into its legislative history, assuming that if there were anything in that bearing on the question, the Acting Secretary would have called it to my attention since the legislation was initiated by the Treasury Department.

The Acting Secretary states that a question of propriety is also involved. Of course, I pass upon the legal question only.

Respectfully yours,

(The document referred to was marked "Exhibit No. 2860" and appears in full in the text.)

Mr. Raushenbush. There is nothing in this record to show that the Attorney General had been given the legislative history of the thing, is there, the various pledges?

Mr. Rathbone. Is it not the law that the legislative history of an act is pertinent to consider only when there is some ambiguity in the act? There was no ambiguity in this act.

Mr. Raushenbach. Enough so that Mr. Leffingwell was reading us quite properly quotations from the congressional debates, this morning.

Mr. Leffingwell. No; that was on an entirely different point. You raised the question this morning of Secretary McAdoo's parliamentary promises.

Mr. Rathbone. Yes.

Mr. Leffingwell. I read the legislative history to show you that he kept his parliamentary promises, as in my opinion, he did. I also made the further point that the law itself settled the decision of Congress on what ought to be done. And as Senator Vandenberg pointed out, the law was absolutely clear, and no lawyer would ever doubt its meaning. Congress hoped this would not be done any more than it had to be, but it left the hands of the Secretary clearly free.

Mr. Raushenbush. Mr. Leffingwell, the Supreme Court, practically every time it tries to find out what Congress meant, goes back to the legislative record, and that, it seems to me, is what the Attorney Gentral was saying here.

Mr. Leffingwell. Only in case of doubt.

Mr. Rathbone. Only where there is ambiguity in the law.

Mr. Raushenbush. The fact that the Attorney General had been advised by the Treasury, the Acting Secretary of the Treasury, as to a doubt, is certainly enough to raise a doubt.

Mr. Rathbone. No; the Acting Secretary of the Treasury was not a lawyer. He might have had doubts to beat the band—to use an expression—but that does not affect the legal question, and there was no ambiguity in the act, and I say it advisedly, because I spent plenty of time studying it and I have had some experience as a lawyer. There was no ambiguity in the act, and there was no need to look at the legislative debates to determine what an act, as plain as that, meant. If you did look at the legislative proceedings, if it had been proper to look at them, you would have been even more fortified in your opinion that the act was plain, and which would confirm the action in the Treasury.

Mr. **Raushenbush.** I understand the disagreement with Mr. Crosby, but the Attorney General was presented with a question regarding doubt about the matter, and it seems perfectly proper that he had the legislative history called to his attention.

Mr. **Rathbone.** It did not do any harm. He gave his opinion as to what the act meant. I have never found anyone who disagreed as to what that act meant.

Mr. **Raushenbush.** Outside, perhaps, of Mr. Crosby?

Mr. **Rathbone.** Mr. Crosby had some doubts.

Mr. **Leffingwell.** Mr. Crosby went ahead and established credits, and he could not have had much doubt.

Mr. **Raushenbush.** After the letter from the Attorney General, they could not have stopped.

Mr. **Rathbone.** I have heard of a great many laymen going to a lawyer and asking what a law meant, and the lawyer would advise from the face of the law what it meant and would not go to the legislative debates whatever, unless there was an ambiguity in the law.

Senator **Bone.** Did the Attorney General enter a formal opinion?

Mr. **Raushenbush.** That was an informal opinion, I take it. There is nothing further than that in the record which we have found.

Now, after this we find this letter of October 15, 1917, which is the date in question, a letter from the Italian Ambassador, Macchi di Cellere, to Acting Secretary Crosby, which I offer for the record with appropriate number.

(The document referred to was marked "Exhibit No. 2861" and appears in full in the text.)

Mr. **Raushenbush.** That letter reads as follows [reading]:

> My Dear Mr. Secretary: Referring to the demand certificate of indebtedness of the Royal Italian Government for $25,000,000 dated today:
>
> It is understood that the advance made by the United States and evidenced thereby is made with a view to the fact that the United States contemplated having large payments to make for itself and its nationals in Italy at an early date on contracts made or soon to be made; and the Royal Italian Government obligates itself immediately, upon request of the Secretary of the Treasury, to establish credits in Italy in lire to the extent required up to the amount of this certificate of indebtedness, and that drafts upon such credits will be honored and accepted by the Italian Government or any of its nationals for any payments to be made by the United States Government or any of its nationals for the purchases of goods, materials, or supplies, or any other requirements. When and as payments are made under such credits the amount thereof will be credited here on said certificate of indebtedness. The understanding herein expressed is, of course, without prejudice to the right of the Secretary of the Treasury to require payment upon demand in the United States.

Mr. **Leffingwell.** Does that fit in with Mr. Rathbone's suggestion about the exhibit?

Mr. **Raushenbush.** Yes; and the thing which interests me is, if that were a reciprocal credit, as it apparently seems to be from this letter ,there was no indication at what rate those lire would be made available, and that leads me to doubt whether it was really such a thing.

Mr. **Leffingwell.** What was the date of the letter which you just read?

Mr. **Raushenbush.** The thing became due on the 15th, and that was the date of the letter.

Here is another letter which may throw some light on the situation, dated October 19, 1917, Mr. Leffingwell, regarding the files of the Chairman of the War Trade Board, which I now introduce in the record.

(The document referred to was marked "Exhibit No. 2862", and is included in the appendix on p. 9275.)

Mr. **Raushenbush.** That letter reads in part as follows [reading]:

> There is a request now before the Secretary of the Treasury for an additional credit of $100,000,000 for the Italian Government. Action upon this was delayed because an extremely difficult case was presented, which was solved a few days ago after much negotiation by advancing $25,000,000 to the Italian Government to meet its notes placed in this country long before our entrance into the war, and finally maturing on the 15th of October. This case presented difficulties, first, on account of certain doubts as to the legality of advancing funds for paying an old debt of this sort and, second, because it seemed desirable in any case to exhaust all possible efforts to have such maturities renewed rather than have them paid by additional advances from the Treasury of the United States. Ambassador Cellere has been indisposed for some days, and I am now awaiting his recovering in order that we may have further discussion as to a further credit that may be established as against possible future needs of his Government as they were indicated in the request for the $100,000,000 credit now in suspense.

It is interesting to us to note that there is nothing in this letter referring to a reciprocal credit at all, but this acts as if it were a loan, taken care of out of the Treasury.

Mr. **Rathbone.** You say there is no authority in the law for an advance of that sort?

Mr. **Raushenbush.** I say there is no indication in here that Mr. Crosby considered this a reciprocal credit.

Mr. **Rathbone.** I do not know exactly what you mean by "a reciprocal credit", but Mr. Crosby in making that loan to the Italian Government got the agreement of the Italian Government to supply all the lire that we needed in Italy for our Army purchases at least up to $25,000,000.

Of course the Italian Government was not under any obligation to supply the lire.

Mr. **Raushenbush.** Are you sure?

Mr. **Rathbone.** Except under this agreement; yes. I mean, he got something in addition to making that loan, and the Italian Government's obligation.

Mr. **Raushenbaush.** According to your recollection, was that $25,000,000 there actually used by our American Army when it got into Italy for expenses in Italy?

Mr. **Rathbone.** No; it was not. That is what I pointed out. There were only $14,000,000.

Mr. **Raushenbush.** Of that $25,000,000, or was it another $14,000,000?

Mr. **Rathbone.** I do not understand just what you mean by "of that $25,000,000." We loaned them $25,000,000. They used that $25,000,000 to pay their obligations in what you call the Lee, Higginson loan.

Mr. **Raushenbush.** Yes, sir.

Mr. **Rathbone.** They then said at that time that the Government would furnish us against our paying dollars the lire we needed for our Government's use in Italy. They did furnish us fourteen million-odd dollars' worth of lire. That $14,000,000 was not placed as a payment on account of the Italian obligations, because, if that had been done, it would have meant $14,000,000 paid on the obligations theretofore given, and we would have to have loaned them $14,000,000 more for their purchases in America. But the $14,000,000 which they received for the lire that they sold us in Italy was used for their purchases in the United States before the Treasury made any more dollar advances to them.

In effect, you will see, it is exactly the same thing.

Senator BONE. Mr. Rathbone, may I ask you a question?

Mr. RATHBONE. Yes, sir.

Senator BONE. Apparently, from the record, the Italian Government made it very plain that it was unable to meet this Italian loan of Lee, Higginson at the time it matured. It paid that loan after it effected this new loan from the Treasury Department here?

Mr. RATHBONE. That is correct.

Senator BONE. Obviously there can be only one conclusion, namely, that Treasury funds from the United States Treasury were employed in a circuitous route to take up this Lee, Higginson loan.

Mr. RATHBONE. That is true.

Mr. LAMONT. Not a circuitous route.

Senator BONE. I want to know if there is any question about that being a fact? There is no question?

Mr. RATHBONE. That the United States Treasury advanced $25,000,000 to Italy, and Italy received the money to pay the back loan?

Senator BONE. Immediately paid it back to Lee, Higginson.

Mr. RATHBONE. Yes. I do not know whether I made it plain, but the default of a government associated with us in the war on dollar obligations held by the American people, plus the failure of the United States Treasury to advance the money necessary to take up that obligation would have been as great encouragement to the common enemy as could have possibly been given by the United States Treasury.

Senator BONE. I understand that, but I am merely concerned now with the fact of this operation, and not what its moral or political effect would have been. I want to get the record straight, so far as I am concerned, as to what actually transpired in the United States, and what you said, Mr. Rathbone, would always be true, that if we got into another war we would have to do the same thing?

Mr. RATHBONE. I do not know that we would have to do the same thing. It depends on who we are fighting against, our position and their position. I cannot prophesy on those things. I am not coming before your committee as an expert but coming to tell you anything I can tell you about our Treasury operations during the war.

Mr. RAUSHENBUSH. This was a perfectly normal operation?

Mr. RATHBONE. It was not normal because we did our very best not to have to advance money to enable governments to take up their own obligations. That was the exception.

Mr. RAUSHENBUSH. There were a sufficient number of exceptions, before it was through——

The CHAIRMAN. To make it rather normal.

Mr. RAUSHENBUSH. To make it rather normal.

Mr. RATHBONE. I do not agree with that.

Senator **Bone**. What sort of security did the Italian Government give this Government for the loans made to them at that time? Were they notes of the Italian Government or a mere memorandum?

Mr. **Rathbone**. There were credit obligations. I have forgotten what the forms are, but they have all been published in the report of the Secretary of the Treasury. They were, under American law, legal and enforceable obligations by the various governments.

Senator **Bone**. They may have been enforceable, but we have not enforced them.

Mr. **Brown**. How would you enforce them?

Mr. **Rathbone**. There is no way of enforcing an obligation given by one Government to another, except by seizing any property they may happen to have in your own jurisdiction, or by sending your Army and Navy over to collect them, that I know of.

Senator **Bone**. Were they bonds or notes, or what?

Mr. **Rathbone**. The obligation given for this particular Italian loan was like those given by all the Allied Governments at the early stages of the war. They had a short-term maturity. I have forgotten what it was, but 6 months or a year or something like that, and it contained a provision that they were exchangeable for long-term obligations in accordance with the terms of the First Liberty Loan Act.

The obligations subsequently given at a later date were straight promissory notes, payable on demand.

Mr. **Raushenbush**. When you said a minute ago that this business of taking over these private loans was an abnormal Treasury operation, Mr. Rathbone, you mean that it is an operation that might have been avoided?

Mr. **Rathbone**. We could have refused any loans of any kind to those Governments.

Mr. **Raushenbush**. Could you have?

Mr. **Rathbone**. But we were trying to win the war.

Mr. **Raushenbush**. If you wanted to win the war, you could not have, could you?

Mr. **Rathbone**. I do not think you could have allowed defaults to have been made by the governments in our market without giving the greatest encouragement to the enemy.

Mr. **Raushenbush**. Yes, sir.

Mr. **Leffingwell**. May I supplement that a little bit, Mr. Raushenbush, because I think it is easy to allow the urgency of this particular question which presented itself to Mr. Crosby on October 15 to lead us to generalizations which are perhaps not clearly established.

I take it that the emergency which existed on October 15 could scarcely have been greater. If you recall, within 2 or 3 weeks the Italian disaster occurred at Caporetto.

Mr. **Raushenbush**. Yes, sir.

Mr. **Leffingwell**. How far the Acting Secretary of the Treasury was apprised of the course of military events by the Italian Ambassador, I cannot say, but I assume that the Italian Ambassador was not lacking in frankness as to the gravity of the problem presenting itself to his country. This was an unsecured loan. The disaster at Caporetto, which followed so soon, was very grave.

If the bankers knew the situation, they were justified in saying, "We cannot float an Italian loan to take up this maturity on October 15."

On the other hand, when we generalize from the particular Italian loan that Mr. Crosby was discussing in his correspondence too quickly, and think back perhaps to those $2,000,000,000 of obligations which you mentioned this morning, I think it is important to bear in mind that the United States Government did not have to take up, as a matter of course, the obligations of the Allied Governments in this market. For instance, we have been reading about a demand loan. That is $400,000,000 which the United States refused to pay.

Mr. **Leffingwell.** Never paid any part of it.

Mr. **Raushenbush.** There is a ship money question.

Mr. **Leffingwell.** It is not a question. Whenever you are ready to discuss it, we will discuss it with you. That was money which was due to England, and not money borrowed by England. The United States Government was obliged to pay this ship money because it obliged England to part with the ships.

Mr. **Brown.** Mr. Leffingwell, we might apply Mr. Rathbone's argument on that. If they had not spent the money on the demand loan, they would have had to get the next loan. I am pointing out only the fact that Mr. Rathbone's argument works both ways.

Mr. **Leffingwell.** If you are in the position of a creditor, you can take unjust, harsh, and unreasonable measures, but if you are in the position of the Secretary of the Treasury of a great Nation fighting a war with another great power, you do not do arbitrary, harsh things, and if you owe money and pay it, you do not undertake to go beyond the point of persuasion in the effort to induce the debtor to apply the money to some purpose other than that to which he feels obligated to apply it. Therefore, I say this ship money was owing by the United States, and it was obliged in the last analysis to yield to the British Government as to its application.

I want to say what I was about to say with regard to the ordinary course of these things. There was not any ordinary course about these things. As Mr. Rathbone pointed out, each one of these things was taken up and fought over and worried over, and an analysis made of the market situation. I believe you used the figure of 2 billion.

Mr. **Raushenbush.** $2,660,000,000 plus.

Mr. **Leffingwell.** In other words, of the $2,660,000,000 which you speak of, a total amount during the entire war period of $650,000,000 was accounted for by the Allied Governments among the expenditures which they reported to the United States Government. In other words, that was the sum of the total that was reported by them among their expenditures.

Now, against that total of loans which they reported to us among their approved expenditures, we have the fact that the British Government alone provided us with $450,000,000 worth of foreign currencies, and the French Government provided us with $1,000,000,000 worth of foreign currencies. And, I may add, that we speak now of the fact, with concern, that these loans are in their present condition, these loans made to the Allied Governments, but we forget that these Governments made a great effort, and made great payments to the Government of the United States. The total amount of the payments made to the Government of the United States on those loans was two billion and three-quarters of a billion dollars.

Mr. **Raushenbush**. On loans totaling altogether how much?

Mr. **Leffingwell**. On loans totaling 10 billion dollars, 2 billion dollars was interest and three-quarters of a billion was principal, and that exceeds the amount of loans which went to meet maturities. $750,000,000 was principal. That exceeds by $100,000,000 the amount of the maturities included in their approved expenditures.

Mr. **Raushenbush**. I do not want to make too much of this $650,000,000.

Mr. **Leffingwell**. I do not want you to think that it was automatic, but we offered resistance which was first rate and tremendously effective and completely effective as to the demand loan, and completely effective as to the British maturity on the 1st of February 1919. Of the total amount of $2,650,000,000, which you speak of, the total amount that was ever included in their approved expenditures was only $650,000,000.

Mr. **Raushenbush**. I do not want to make too much of the $650,000,000, Mr. Leffingwell, but, after all, it is an impressive sum.

Mr. **Leffingwell**. It is an immense sum.

Mr. **Raushenbush**. It is an immense sum. Here we find in this transaction and others to come, that with the exception in part of the demand loan, all the maturities as they came along, the Governments failed to take care of them.

Mr. **Leffingwell**. Not all.

Mr. **Rathbone**. They had to be taken care of.

Mr. **Raushenbush**. They had to be taken care of. When that happens with such regularity, it seemed to me a very important question as to whether we can expect that in any other war we get into, in other words, whether it will be a normal transaction. It seems to me clear that on the face of the Treasury evidence——

Mr. **Leffingwell**. Of course, if there is any question that war is costly——

Mr. **Raushenbush**. That is not the question——

Mr. **Leffingwell** (continuing). In anybody's mind, it is not in mine. This was the least costly of our war expenditures, in our opinion.

Mr. **Raushenbush**. Let us leave off this $650,000,000, if you will. The question is something else. Suppose you do the thing over again, and let a lot of financing for munitions generally and arms specifically get piled up, and then because of many things, regardless of that, we might get into another war, and would we not have, under present law, to repeat the business of keeping up Allied credit for the sake of winning the war? That is where, as a subpoint, this question came in on these particular maturities as they came along.

Mr. **Leffingwell**. To put it another way around, Mr. Raushenbush, would it not be your first problem to see that in one way or another you did maintain the credit of the governments which were fighting the war shoulder to shoulder with you?

Mr. **Raushenbush**. I would suppose that once you accepted the war, you would do it. It is knowing ahead of time what is going to happen.

Mr. **Leffingwell.** You are in the war, and once you accept the fact you are in the war, then you have to consider how most effectively to go about the business of winning it.

Mr. **Raushenbush.** Yes, sir.

Mr. **Leffingwell.** And that is what the Treasury did.

Mr. **Raushenbush.** Yes, sir.

Mr. **Leffingwell.** And it did it with the extreme reservation that it put every barrier it could devise, short of something which would amount to a military disaster, in the way of taking up these old maturities.

Mr. **Raushenbush.** I think what you have said there in the last 2 minutes is very important, Mr. Leffingwell, from this angle: That if Congress realizes that once it goes into the war, that the thing to do is to win it, at all costs, and that it will therefore have to keep up Allied credit, and that that might throw some light upon the situation before you get into the war.

Mr. **Rathbone.** If you go into the war, the uppermost thought is that we have got to win the war.

Mr. **Raushenbush.** Of course, but that still does not change what I have been commenting on, Mr. Rathbone.

Mr. **Leffingwell.** I still wish you would think of what I was saying this morning about those debates in Congress, because I know that every member of this committee would put himself in the place of those Congressmen and Senators and understand how they sat there, those who voted against the war and those who voted for the war, and unanimously decided, after this question of the maturity of the loans was taken up time and time again by men who said, "The bankers got us into the war", or "the munitions makers got us into the war", and said, "They ought not to get their money back." Time and time again that argument was made, and time and time again the chairman of the Ways and Means Committee, who himself had voted against the war, and the leader of the minority of the Ways and Means Committee, and the leaders of the House on both sides got up and said, "Why, we do not want it done. We do not think it is going to be done, we hope it won't be done, but we must leave the power to the President and the Secretary of the Treasury to buy the obligations of these governments and let these governments who are fighting with us decide what to do with the money, because it is going to be months and perhaps a year before we can put an army over there, and we dare not do otherwise."

That was the decision, and it was the decision of the Congress that we must leave that power open, and that is what was felt in the Treasury.

Mr. **Raushenbush.** You still would seem to forget that you said that the Congress thought that a program was coming along that would eventuate that way, and that we would have to pay off all those maturing obligations.

Mr. **Rathbone.** We did not pay them all off.

Mr. **Raushenbush.** Except in small part.

Mr. **Rathbone.** About six and a quarter.

Mr. **Leffingwell.** We did not buy them, but we bought the obligations of foreign governments, and we did what Mr. Kitchin on the floor of the House said we should do, we left it for them to decide what should be done with the money. If you will read that long, long debate through, you will find time and again that the members of the House of Representatives, under the leadership of Mr. Kitchin, Mr. Mann, Mr. Mondell, Mr. Fordney, and Mr. Longworth, and Mr. John Garner, and Mr. Shirley, and Mr. Hull, were saying, "Yes; the war is important now, and although some of us voted against the war, and some of us were making the very same argument that has been presented here, that the country has gotten into the war for economic reasons, we are in it now and we must not omit one single thing, and must not tie the hands of the President of the United States, the Commander in Chief of the Army and the Navy in time of war, so that he cannot do what is necessary to win the war."

That runs all through the debate. Then, on top of that, Mr. Rathbone, I and our associates went to the Ways and Means Committee, as I mentioned this morning,[1] and Mr. Kitchin said, "Now, how many maturities have been taken up?" And we gave him the figures as they stood then, $400,000,000, and explained to him just what I have explained to you today, that the Allies had credits representing their own money coming to them for the pounds and francs which they had provided, and the Ways and Means Committee were satisfied and brought in again a unanimous report, except as to the War Finance Corporation, which was irrelevant to the Liberty Loan legislation, and the House passed it with a minimum of dissenting votes, after the war was over, after President Wilson had been over to Europe once, and after he had lost the election in the Fall.

That was the reaction of the Ways and Means Committee, to whom this parliamentary commitment, if any, had been given.

Mr. **Raushenbush.** There is no particular implication here that Congress was not, in due time, informed to what extent those rules and regulations had been used.

A while ago, in a spirit of jest, I am sure, Mr. Bernard Baruch, who was on the stand, nominated me for Secretary of the Treasury. [Laughter.]

May I note for the record laughter from the witnesses, Mr. Chairman?

Mr. **Leffingwell.** Did you not mean us to laugh, Mr. Raushenbush.

Mr. **Raushenbush.** It seems to me that if any Secretary of the Treasury were going in, and knowing that as soon as we got into the war we would practically have to peg the credit of the world, or of our Allies, and that our obligations would normally entail that, that he would think twice about accepting his job anyhow, or would be confronted with something that is not generally accepted.

From your intimate knowledge, you know it has to be done. I do not think the people generally know the implications.

Mr. **Leffingwell.** I do not think anybody in the United States had any conception of the magnitude of the task which was before them when they entered the war. I do not suppose anybody who ever undertakes a job realizes how difficult it is. It is not one of those things which develops beforehand. That is one reason why the human race achieves so much. It has not vision enough to foresee the extent of the difficulties which present themselves.

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[1] See supra, p. 8995.

Mr. RAUSHENBUSH. Coming back to this Italian matter a minute, later on, on April 25, 1918, you, Mr. Leffingwell, were writing to the Italian Ambassador about some additional arrangements, and at that time you did talk about fixing a matter of exchange. Do you have that exhibit to put before Mr. Leffingwell of April 25, 1918, Mr. Wohlforth?

That seems to be something else and something different from the other one. That seems to be more in the nature of a reciprocal credit than the other one was, does it not?

Mr. LEFFINGWELL. I cannot read the date.

Mr. RAUSHENBUSH. April 25, 1918. In the second paragraph it says [reading]:

> Under this plan, it would be necessary for us to agree upon a fixed rate of exchange for each month in order to systematize the accounting of the Army departments.

That letter is offered for the record.

(The document referred to was marked "Exhibit No. 2863" and is included in the appendix on p. 9277.)

Mr. RAUSHENBUSH. Then later on, on May 6, 1918, the Ambassador writes back to you: "My dear Mr. Leffingwell", and in the second paragraph of the letter he states:

> You are perfectly aware that under the credits already granted by the United States Government to the Italian Government only 30 million dollars ($30,000,000) are still available besides the 25 million dollars ($25,000,000) advanced, under special conditions, for the payment of the debt contracted with Messrs. Lee, Higginson & Co., the solution of which is not yet settled.

Still bearing on the difference between that and the Army arrangements later. If you have no comment, we will go on to the French loan.

That letter is offered for the record.

(The document referred to was marked "Exhibit No. 2864" and is included in the appendix on p. 9278.)

Mr. RAUSHENBUSH. Mr. Morgan?

Mr. MORGAN. Mr. Chairman or Mr. Raushenbush, may I interrupt a moment?

Mr. RAUSHENBUSH. Yes, sir.

RELATION BETWEEN PRE-EXISTING INDEBTEDNESS AND TREASURY POLICY[1]

Mr. MORGAN. Your feeling that the country was not aware as to what it would involve has been brought up, and I thought it would perhaps be helpful to read Mr. Wilson's address to Congress when he asked for war to be declared. He said [reading]:

> What this will involve is clear. It will involve the utmost practicable cooperation in council and action with the governments now at war with Germany, and as incident to that the extension to those governments of the most liberal financial credits in order that our resources may be, so far as possible, added to theirs.

Mr. RAUSHENBUSH. I was trying to apply the question to another war, rather than the World War.

Mr. MORGAN. Any other war would have the same effect. You have got to join with your Allies wholeheartedly or you should not join with them.

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[1] See also "Exhibit No. 3242", Hearings, Part XXX; and "Exhibits Nos. 4135-A through 4172", Hearings, Part XXXII.

Mr. Raushenbush. And, if necessary, pay off their private debt?

Mr. Morgan. Yes; do everything necessary.

Mr. Raushenbush. And pay one billion dollars for exchange?

Mr. Morgan. Do everything necessary to win the war. Of course you have got to.

Mr. Leffingwell. Mr. Raushenbush, may I add just a little word to that on this subject? I believe this was a very serious enterprise and the American people and the Treasury, as well as all the rest of the American people, looked upon it as a war of duty and a war that was meant to express the highest ideals of the American people.

Mr. Raushenbush. Yes, sir.

Mr. Leffingwell. And their utmost aspirations were involved during that whole war period and the people, the Government departments and the Congress of the United States responded to the idealism and the aspirations of the American people, as they were expressed by the President of the United States. From the point of view of those who lived through it, it was an idealistic war, and the loans that we made to the Allies by just so much reduced the expenditure that the American people had to make and the military effort they had to make on their own account.

Mr. Raushenbush. Yes, sir.

Mr. Leffingwell. I think that the Congress, as well as the departments of the Government in the last analysis, always preferred that something should be done that sustained the ability of Great Britain or of France or Italy to maintain its armies in the field. Whether it took the form of maintaining their credit or the selling of supplies to them, they always preferred that to any expenditure which amounted to increase of the peril of American lives.

Mr. Raushenbush. No question has been raised at all about our idealism, and I am sure you did not raise it in any negative sense yourself. The foreign governments, it seemed to us as we plowed through various records which have been entered here, were quite aware of financial power, and the quotation I was citing today from Lloyd George and Tardieu shows during the period of our neutrality they were very much aware of those things, much more aware, perhaps, than we were.

I am sure you are not commenting or reflecting upon the conduct of our administration in portraying it as naive. I do not think you intend that at all. But compared to the attitude, apparently taken by the foreign statesmen in availing of the power of money, the power of private loans and the power of trade, our officials held a very different or negative attitude. They did not take those things into consideration very much.

Mr. Leffingwell. You think our officials did not take——

Mr. Raushenbush. Compared with them.

Mr. Leffingwell. Compared to the foreign officials?

Mr. Raushenbush. According to their writings; yes, sir.

Mr. Leffingwell. I always hesitate to express a general opinion about the policies of nations, and it is quite outside my function, but I did think it important to bring before you the approach to the operation, and the desire of Congress and the Treasury in relation to their foreign loans, and how it seemed to us we should conduct ourselves. Those were considerations of the utmost moment.

Mr. **Raushenbush.** In that connection, we cannot seem to get any witnesses, either from Morgans or anywhere else, to be willing to say that the sort of thing that the French High Commissioner of Finance, for instance, decided about in the neutrality period, which did involve these things, was true.

This is Tardieu, who was the French High Commissioner over here, and he is writing a book called France and America and he states on pages 150 and 151 [reading]:

> * * * but the increasing volume of Allied needs afforded the Americans almost unlimited trade possibilities. Prices had risen enormously. Profits had swollen tenfold. The Allies had become the sole customer of the United States. Loans the Allies had obtained from New York banks swept the gold of Europe into American coffers.
>
> From that time on, whether desired or not, the victory of the Allies became essential to the United States. The vacillations of Wilson's policy only made this necessity more apparent. The note of the Federal Reserve Board forbidding further loans to the Allies jeopardized American financial interests as much as it did the fate of the Allies. This note, coming too late or too soon, placed buyers and sellers, borrowers and lenders, in equal peril. If deprived of resources the Allies lost the war, how could their debts be paid and what would their signature be worth? The carefully weighed policy of the President, permitting sales and stopping credits, worked against neutrality and in favor of a break; it worked against Germany and in favor of the Allies. Between the Allies and the American market a common bond of interest had been created.

That seems to me to be a recognition of American trade.

Mr. **Leffingwell.** Who is this talking? When did he write it?

Mr. **Raushenbush.** This is "France and America."

Mr. **Lamont.** Two or three years after the war.

Mr. **Leffingwell.** Book writing is interesting, but it does not establish principles that are conclusive in regard to the policies of his country or ours, do you think?

Mr. **Raushenbush.** No; but this is an interesting recognition of a fairly prominent person, who was Prime Minister.

Mr. **Leffingwell.** A brilliant man and very penetrating, but I do not know whether either of us would subscribe to all of that, would we?

Mr. **Lamont.** You said, Mr. Raushenbush, that you had difficulty in getting any one of the Morgan partners to subscribe to that. I think you would have difficulty. We do not subscribe to it.

Mr. **Raushenbush.** In giving way to the power of trade?

Mr. **Lamont.** No; we all recognize the economic factor which exists in every situation, pre-war and war, and everything else, but I do not myself agree for a minute with Tardieu's explanation there to the effect that because we were selling goods to the Allies and because we were extending credit to them, most of them secured credits, that, therefore, a victory on that account was necessary for us. Perhaps a victory was necessary for our civilization, but it was not necessary on those particular counts, in my judgment. Therefore, I do not agree with my friend, Mr. Tardieu.

Mr. **Raushenbush.** And you disagreed before with Ray Stannard Baker when he said somewhat the same things? Do you remember the colloquy?

Mr. **Lamont.** I do not remember the colloquy, but I should not hesitate to disagree with him.

Senator BONE. Mr. Morgan, you responded that some question of Mr. Raushenbush led you to read a section of Mr. Wilson's pronouncement upon our entry into the war.

Mr. MORGAN. Yes, sir.

Senator BONE. And our suggestions here about what might happen in another war leads me to ask you this: You stated that in the event we went into a war where we would have allies, that it was our duty to put all our resources behind our allies.

Mr. MORGAN. I meant that it was our duty so to use our assets that they helped our allies as well as us. It is most important to us to keep our allies going.

Senator BONE. That is right; but let me assume something which might occur in another war and see what you think of this present situation, if it arises, because we must assume a different aspect existed then, and our reluctance to get into another war now is indicated by the general attitude of the public, which might compel us, by public opinion, to remain out a long time. But, assume that we were finally drawn in, toward the end of a war, if another great international war could be financed, and our then allies presented and placed in our lap a mass of indebtedness that was simply staggering in its proportions, and our entry into the war took place in such a fashion that it came almost abruptly, do you think under those circumstances that the United States should underwrite all those loans, which is a possibility in another war?

Mr. MORGAN. I should think that possibility is rather extreme, Senator.

Senator BONE. I will admit that, but if we went in, could we expect otherwise?

Mr. MORGAN. My idea would be that if the country had found itself compelled to go into the war it must do everything it could, to the limit of its power, to see that that war was won and won very properly by them.

Senator BONE. That is true. If we get into another war, notwithstanding the fact that the world was almost bankrupt by the last war, do you not agree that this Government would again find itself in the position of having to underwrite all those activities?

Mr. MORGAN. It might not be able to, and in that case we might lose the war.

Senator BONE. And probably pull down the whole western civilization with it?

Mr. MORGAN. I should think that is very likely.

Mr. WHITNEY. Our Government did not underwrite all of the Allied debts of the last war.

Senator BONE. No; but we underwrote them to the extent of assuming a staggering burden, which is now reflected in our income-tax statements.

Mr. LEFFINGWELL. Let me interject a word, Senator. From the Treasury's point of view, limiting myself to that, it needs no argument that a war is an economic and financial misfortune of the first magnitude, not to say a human misfortune of the first magnitude. We can take all of those things for granted. We all should stay out of war.

But I think from the Treasury's point of view the problem was, being in it, first to win it, and, second, to win it with the least possible cost of American lives—with the least possible cost of American lives. That war cost us $40,000,000,000, roughly, in loans and taxes, and of that $40,000,000,000 war cost, $650,000,000 is the total amount that the Allies reported to the United States Government among their approved expenditures to meet maturities.

Now, when you think of the cost in human suffering, the cost in human lives, and the cost in American material, it does seem that the loans that the United States Government made to meet these maturities were among the most economical loans that the United States Government made, $650,000,000 to maintain the credit of the governments that were fighting in France, and wherever they were fighting, which was a moderate sum.

Mr. **Raushenbush.** There was a question of exchange.

Mr. **Rathbone.** A good part of that $650,000,000 was paid for, so far as France is concerned, entirely out of her own resources.

Mr. **Raushenbush.** But Mr. Leffingwell's figure of that small proportion did not take into consideration the other things which were used to maintain the credits, such as the exchange operation.

Mr. **Leffingwell.** There is no reason for leaving out the exchange, but I understood that the inquiries which you have been making today were practically concerned with the question of the maturities, and I thought it proper to isolate this a little while ago. I have illustrated it in another relation, and that was that we loaned roughly $10,000,000,000 to the Allies, and that was one-fourth of the war cost.

Now, the view of the Treasury and the view of the Government of the United States and of the Congress of the United States at that time was, and it was clearly declared in all the debates and in every hearing on every Liberty Loan bill, the view clearly was that so far as we were able to support the effort of the Allies and the armies of the Allies and the credit of the Allies, by so much we shortened the war, we reduced the risk of the loss of American lives, and that was the most economical way to meet this problem.

Senator **Bone.** Have you any doubt in your mind, if we become engaged in another war, in which we might have allies, of the same character, that we would again be compelled to finance their operations? We paid our own war cost and in addition gave them 10 or 12 billion dollars. We did not do a bad job, either in the way of manpower or finance.

Mr. **Leffingwell.** A superb job, Senator.

Senator **Bone.** In the event of another war, we would again have to underwrite their war operations?

Mr. **Rathbone.** We would have to finance their operations in the United States?

Senator **Bone.** Yes, sir. Probably, with more tremendous natural resources than any other country, they would look to us for copper and raw materials. We have now to face realistically the fact that if we got into another war, in which we have other allies, we are going to carry just about the same burden which we carried in the late war. Do you see any escape from that conclusion?

Mr. **Rathbone.** No, sir; I do not.

Senator **Bone.** Certainly, the European nations are all broke today.

Mr. RATHBONE. No; but they have not the same amount of American securities they had before the war.

Mr. LEFFINGWELL. Senator, these have been hard years, but is not that an exaggeration?

Senator BONE. Perhaps that is an exaggeration, but that shows the aspect of the situation to us when they stated they cannot pay this money.

Mr. LAMONT. They state they cannot find the dollar exchange.

Mr. LEFFINGWELL. Of course, this country is one of the largest countries, and it has the better part of the continent, and it is undoubtedly true that its financial stake in the human enterprise is tremendous; and if it be the senior partner in the human enterprise, it may take it for granted, whether it is in a war or out of a war, it has a tremendous stake in the success of the enterprise, and it had better stay out of war, because it will have to pay some very heavy war bills.

Senator BONE. What I am getting at is, in a very cold-blooded way, that we would have to face the situation of having to finance the war in part of those with whom we were engaged in the war.

Mr. MORGAN. That, or stay out.

Senator BONE. That is what I am getting at, or stay out.

Mr. MORGAN. You might not be able to stay out.

Senator BONE. That is what I am trying to get at. I think the American people should know from the experience of the past war, what we are likely to meet in another war, in order that we may be guided by the experiences of the past, and what we are trying to do is to give the American people a cold-blooded, hard, realistic picture of what they will probably be confronted with financially in another war.

Mr. MORGAN. And the same sentiment arises, and it is the thing which will meet you in another war, as otherwise, and when it does come, you have got to put everything you have got, and it is as Lloyd George said, that England, in starting in on the war, was in this situation:

> Do not think this will be a short war, but it will be a long war, and it is going to be won by the people who have the last man, the last shell, and the last bullet.

Senator BONE. I think you will agree with me, Mr. Morgan, that it is probably the part of wisdom for the American people to contemplate this thing. You have no objection to that?

Mr. MORGAN. I am delighted to have them contemplate anything it is wise for them to do, but I only want to assure them that if those things come to pass, that the thing they will be confronted with is that, "You will have to win the war", and you cannot help yourself.

Senator BONE. Of course it is necessary.

Mr. MORGAN. We are not one of the nations who go out to war to get something else. We have never done that. All of our wars have been defensive.

Senator BONE. We did not get anything out of the last war except a burden of debt.

Mr. MORGAN. I think we saved our souls and civilization, do you not?

Senator BONE. I am talking about things like money or colonies, and so forth.

Mr. MORGAN. They do not count greatly in winning the war.

Mr. LAMONT. Senator Bone, we agree with you, that if possible, the facts respecting the last war and our entry into it should be laid before the American people for their consideration and thought. But, after all, as Mr. Morgan has intimated it is not the dread of the financial sacrifice that is going to affect the American people the most, but it is the dread of the other terrible things in war, rather than financial burdens.

Senator BONE. Of course we cannot hope to capture all of the imponderables of that period, and to visualize them here, but what we can do is to put the facts on the record and let people draw whatever conclusions they please from them.

Mr. MORGAN. Yes, sir.

The CHAIRMAN. Mr. Lamont and Mr. Morgan, what do you think of the possibilities—we have not any better time to question it than now, when you are before us—what do you consider to be the possibilities in the event of another war of writing off the chances for large profits to be gathered by individuals or by groups who are in that war?

Mr. LAMONT. You mean the current war profits?

The CHAIRMAN. Taking the profit out of that abnormal period which war is.

Mr. LAMONT. Senator, answering for myself and not attempting to answer for Mr. Morgan of course—you addressed me first—this would seem to me very clear: That, as in the last war, the best method for attaining the very end that you desire is to tax profits very heavily, rather than to try to put any definite roof on too many of them. Because when you attempt to do that, then you do not know where to put the roof on the profits of the farmer and all that sort of thing. But assuming you let industry go its course, after you have let industry develop itself, then in time it will be able to make profits, which you can tax to the very limit. It is a very complex question, but I should think that the experts here, Mr. Leffingwell and Mr. Rathbone, could speak far better on that than I could. Our experience in the late war showed that taxing profits afterward was better than limiting profits beforehand.

Mr. MORGAN. I would like to make my part of the answer.

The CHAIRMAN. I wish you would, Mr. Morgan.

Mr. MORGAN. My experience was that the profits which were made out of the last war were made before we went into it. I am sure for ourselves, that we were very much more prosperous during the time when we were working for the Allies and wishing them well, and doing every possible thing we could to keep them going, than we were afterward. When we got into the war, we fell in with everybody else, and everybody had to pull up his belt and get to work and invest everything he could in Liberty bonds and join every movement that it was possible to do, for everybody to help the war along.

The CHAIRMAN. Do you feel that we could go further with our taxation in another emergency than we did the last time?

Mr. MORGAN. I do not know. I think you got pretty nearly the top taxing power.

The CHAIRMAN. You think we reached about the limit of taxation at that time?

Mr. MORGAN. On direct taxation, I think so; yes; but that is a question on which I am not a doctor.

Mr. LEFFINGWELL. The Treasury does not agree with Mr. Morgan. Secretary McAdoo presented a proposal for increasing the taxes to the Congress in the midsummer of 1918, which was of a most drastic character, and it involved something like doubling the tax revenue of the country and imposing a war-profits tax; and those measures of taxation were very seriously considered by the Congress; and I think it was the profound thought and expectation of the Treasury of the United States that those drastic taxes would be imposed, when Armistice Day came and the Treasury modified its proposals.

Mr. RAUSHENBUSH. Mr. Morgan, coming back to your reply; do you think the war would have been won less economically if a person with an income, let us say, of $5,000,000 a year paid more than $1,500,000 taxes, if the ratio had gone up somewhat?

Mr. MORGAN. I am not prepared to judge on that question. I do not know.

Mr. RAUSHENBUSH. You said that you thought that the limit had been reached.

Mr. MORGAN. I thought that you had reached the limit of productivity in taxes. You have got, in order to get more taxes now, to broaden the base.

Mr. RAUSHENBUSH. I was asking about a particular individual, Mr. Morgan, in the higher brackets. I agree with you that we would have to broaden the base. But coming back to this individual getting an income, let us say, of about $5,000,000, and, if I remember correctly, the rate came to about $1,500,000. Is not that right?

Mr. LAMONT. I thought it was two-thirds.

Mr. LEFFINGWELL. It was 73 percent, I am told. One of the most drastic of the measures of taxation which the Treasury proposed, as I remember it, at that time was the addition of a war profits tax on corporations, in addition to the excess profits tax, which was already contained in the law, and the Treasury had a plan of having an alternative tax which would fall upon a corporation, so that it would have to pay whichever tax turned out to be higher. The war profits tax was measured by the excess over their profits in a preceding period of years, and the excess profits tax was a tax on income over a given rate of return on capital. The Treasury thought that would have been productive; yes.

Another change would have been the broadening of the income-tax base, as Mr. Morgan says, and another was consumption taxes in every form. But I think the total program for taxation amounted to something like $8,000,000,000 in 1918, if it had been adopted.

Mr. Raushenbush. If it had been adopted.

Mr. Leffingwell. But broadening the base would have made a tremendous increase, and the war-profits tax would have been a tremendous increase. The Treasury's program was to collect one-third of the total cost of the war in taxes. We hoped that these proportions would work out.

Mr. Raushenbush. I agree with you on the Treasury plan, of course. But, Mr. Morgan, did I understand you correctly, that you thought a sort of limit had been reached? Was that it? That they could not have collected much more?

Mr. Morgan. If you are talking simply about war taxes, there is certainly room to put in an excess-profits tax on some of the war profits.

Mr. Raushenbush. I was not talking so much of corporations as individuals. Would the efficiency of the people who were taxed, their willingness to work for the country in time of war, be lowered or done away with and be abolished if their income were reduced to but $1,000,000? Would that individual be less ready to work for the country?

Mr. Whitney. You mean the very top brackets?

Mr. Raushenbush. Yes, sir.

Mr. Morgan. What does that amount to? That amounts to 20 or 30 people in the country. It is no good legislating for 20 or 30 people, but of course you should legislate for 20 or 30 million people.

Mr. Lamont. Are not we all agreed that in time of war it is perfectly natural and a normal thing for the Treasury to tax everybody to the limit of what he can stand, always bearing in mind that with the tremendous expansion in industry and all that sort of thing, you do not want to kill off capital so completely that you are crippling your efforts. But, certainly, in time of war we all agree that everybody should be taxed everything he can be taxed.

Mr. Raushenbush. I was trying to develop the point as to everything that he could be taxed. This is not academic, because in the bill now in the Senate Committee on Finance, tending to take the profits out of war, as to that bill there has been a good deal of dispute as to whether one can do ahead of time what the Treasury tried unsuccessfully to do in the war time, to raise the taxes very much. I was trying to get, if possible, what the definite limit was, at which point there would be a refusal to work.

Mr. Morgan. Did I understand you to say that the Treasury did it unsuccessfully? They got one-third of the cost of the war.

The **Chairman.** The Treasury wanted to go further.

Mr. Leffingwell. There was a delay and the armistice came before the legislation was passed, but the actual effect was that we borrowed about $26,000,000,000, and we raised about $13,000,000,000 in taxes, and that made the $40,000,000,000 I have been speaking of. That is about what the Treasury did.

The problem, of course, was a very acute one. It was a very unpopular measure which the Treasury suggested, and the people in the country, like statesmen and the Secretary of the Treasury and the President of the United States, called upon the congressional leaders to do that. It was a very, very serious thing indeed. In my opinion, that drastic taxation would have been passed, if the Armistice Day had not come, because the American people were prepared to make the sacrifice which they were called upon to make. It was the most ingenious taxation the Treasury was able to think of. Experience adds, no doubt, to the intellectual prowess of the tax gatherer, and no doubt today the Treasury may be able to think up things we could not think of then, but our program was to raise all the taxes we could raise without slowing down the productive effort of the country for the purposes of the war. That was our purpose.

Senator BONE. Mr. Morgan, you say it would have been necessary to broaden the tax base. I assume that you take in a larger bracket of potential taxpayers in the income-tax field and in the sales-tax field.

Mr. MORGAN. Possibly. They have a system in England by which the income tax is the same for everybody up to 5,000 pounds a year.

Senator BONE. You mean in the percentage?

Mr. MORGAN. I mean in the percentage. They all have to pay 4s. 6d. now. That is 22½ percent. After they have what they call the surtax or supertax, which is calculated on everything, and that goes up to 60 percent altogether, everybody above 5,000 pounds has to pay—between 5,000 and 7,000 there is a certain reduction—and then they have to pay up to 60 percent, all of them.

Senator BONE. Do you think, as a practical matter of taxation, that is a superior system to our current system of taxation?

Mr. MORGAN. Yes; that is the more effective system.

Senator BONE. It may be a little out of order here, but I am rather curious to get your reaction, Mr. Morgan, as a very great number of very prominent gentlemen have avoided expressing themselves concerning the matter, and I hope you will.

In view of our experience in the last war, and the experience in Europe as the result of the last war, where a great many governmental systems were violently overthrown, and where their picture does not appear to be a very healthy one, I am wondering what you might think might happen to western civilization, in the event the western world became embroiled in another great international war which went several years?

Mr. MORGAN. I cannot guess. It is quite impossible.

Senator BONE. Do you feel that it might jeopardize those things which have come to us as a heritage of thousands of years?

Mr. MORGAN. In every war you must interfere with the capital structure in a country. And if the war destroyed the country to such an extent that it destroyed what you might call the leisure class. the people in comfortable positions, that will eventually destroy civilization. But civilizations have died before now and come back. They are always based on the same thing.

Senator BONE. You know what I mean by "the Western World."

Mr. MORGAN. The civilization of western Europe and America.

Senator BONE. That is right. Do you think that that civilization could stand the tortuous strains of another long drawn-out war. without perhaps being in grave danger of a collapse that would involve our civilization, perhaps so hopelessly financially and with social upheavals as perhaps to do irreparable damage?

Mr. MORGAN. I think it might do irreparable damage, of course, but how great that damage would be, I do not know. I have never been able to make up my mind about that situation, Senator.

Mr. LAMONT. It is dreadful to contemplate, Senator.

The CHAIRMAN. We do know that under more modern methods, it is apt to be very more devastating than the last war. We have a right to expect that in a general way, Mr. Morgan, have we not?

Mr. MORGAN. I rather think so.

The CHAIRMAN. The committee will be in recess until 10 o'clock in the morning, and before taking the recess let it be announced that it is our expectation of finishing tomorrow afternoon, and we shall probably recess for not over one hour and a half tomorrow noon.

(Thereupon, at 5:05 p. m., the hearing in the above-entitled matter was adjourned until 10 a. m. of the following day, Wednesday, Feb. 5, 1936.)

INVESTIGATION OF MUNITIONS INDUSTRY

WEDNESDAY, FEBRUARY 5, 1936

United States Senate,
Special Committee to Investigate
the Munitions Industry,
Washington, D. C.

The hearing was resumed at 10 a. m., in the Caucus Room, Senate Office Building, pursuant to adjournment, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Clark, Bone, and Vandenberg.

Also present: Stephen Raushenbush, secretary, Lawrence Brown, financial assistant to committee, and Robert Wohlforth, assistant to the secretary.

TESTIMONY OF J. P. MORGAN, THOMAS W. LAMONT, GEORGE WHITNEY, R. C. LEFFINGWELL, AND ALBERT RATHBONE—Resumed

The Chairman. The committee will be in order. Mr. Raushenbush.

REPAYMENT OF FRENCH OBLIGATIONS[1]

Mr. Raushenbush. Mr. Chairman, I would like to take up rather briefly with Mr. Leffingwell and Mr. Rathbone the actions of the Treasury in regard to the French private indebtedness in the United States prior to our entry into the war.

Does either of you gentlemen remember about these first French transactions so you would care to inform the committee, or would you prefer to have me go over these documents as I have them here?

Mr. Leffingwell. Which do you mean by the "first French transactions"?

Mr. Raushenbush. The first one to mature was the Seligman loan; that came due on November 16, 1917.

Mr. Leffingwell. November 16, did it? I do not seem to remember much about it. I think you had better start us off, Mr. Raushenbush, and that may refresh my recollection. Do you remember about it?

Mr. Rathbone. I do not remember anything about it. It was before I had anything to do with the Treasury.

Mr. Raushenbush. I think we have seen already the French had a total of $675,547,000 plus in the United States maturing after April 6. We have already gone through the Italian maturities that came due and were paid off, and now we come to the first French maturity, the Seligman loan, which I believe was originally $12,800,000, and by this time had been reduced to $10,072,000. It was a 1-year loan secured by collateral consisting of railway shares.

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[1] See also "Exhibits Nos. 4184 through 4189", Hearings, Part XXXIII.

Just to establish the loan, I want to offer two exhibits, one being a draft by the issuing house of the investment, and there is another one.

Mr. **Wohlforth.** A further letter concerning the same transaction.

Mr. **Raushenbush.** Just establishing the existence of the loan.

(The documents referred to were marked "Exhibits Nos. 2865 and 2866", and are included in the appendix on p. 9278.)

Mr. **Raushenbush.** On October 4, 1917, we find a letter from the French High Commission of the French Republic, Tardieu, to the Secretary of the Treasury, who was then Mr. Crosby. We have both the French and English here, in case you want to go back of this translation.

(The document referred to was marked "Exhibit No. 2867", and is included in the appendix on p. 9279.)

Mr. **Raushenbush.** He is saying to the Acting Secretary of the Treasury [reading]:

> On the one hand you believe that the American laws do not permit you to authorize the reimbursement of our loans with funds advanced by the American Government and that therefore, at their expiration, these loans should either be renewed or replaced by similar credit operations; at any rate that the French Government should plan to pay them off with resources completely independent of funds advanced by the United States since their entrance into the war.
>
> On the other hand, you recognize as we do the considerable interest that there is in retaking possession of the shares from the collateral of the Seligman loan of 1916, in order to apply them to release the Spanish securities from the collateral of our other loans, so necessary at this time. On the other hand, you consider as well as we do, the grave damage that a renewal of a loan of this nature at 7 percent will cause to French credit.
>
> Between these two lines of consideration I have searched for a loyal conciliation and I believe I have found it. This solution consists, for the French Government, in proceeding immediately to the issue on the American market of Treasury bills similar to those which the British Government is now issuing—and for an amount corresponding to the loan to be repaid.

Do you gather from that Mr. Leffingwell, that on October 4, 1917 the Treasury was still trying very hard to get the French to refund their private loans over here, and also did it hold that they were not authorized——

Mr. **Leffingwell.** I do not gather any conclusion about what the Treasury held from what a French High Commissioner said in a letter. His impressions might have been somewhat confused.

Mr. **Raushenbush.** Surely, but do you remember that?

Mr. **Leffingwell.** I do not remember any opinions formed in October 1917, on the subject, myself, at first hand.

Mr. **Raushenbush.** Do you remember, Mr. Rathbone, at this moment that transaction?

Mr. **Rathbone.** I was not there.

Mr. **Raushenbush.** That is right. Will you remind me again when you came in?

Mr. **Rathbone.** I left New York on January 21, 1918, and reported to the Treasury on January 22, 1918. I think on January 23, 24, and 25, I was engaged in fighting off an attack of ptomaine poisoning from the food that you got in Washington during the war. So it was practically the first day of February that I went into the Treasury, knowing nothing about its policies or its foreign loans or anything else. But I soon learned something about them.

Mr. RAUSHENBUSH. Then we have a letter from the Seligman files to the French financial agent, pointing out that it is pretty hard to renew this loan, saying [reading]:

> Under the circumstances, the rate of interest which we suggested to you, namely, 7 percent for a 6 months' extension, would seem to be not unduly high. Of course, if the French Government should prefer to pay off the loan rather than extend on these terms, we should understand its point of view, but I feel certain that the French Government will similarly appreciate our attitude in the matter of interest rate, which must necessarily have to be in conformity with money market conditions.

(The document referred to was marked "Exhibit No. 2868" and is included in the appendix on p. 9281.)

Mr. RAUSHENBUSH. That was not a particularly high rate, was it, 7 percent on a 6 months' extension?

Mr. RATHBONE. Was it 7 percent for 6 months, or at the rate of 7 percent per annum for 6 months?

Mr. RAUSHENBUSH. It says, "7 percent for a 6 months' extension."

Mr. RATHBONE. That would be extremely high. Fourteen percent a year would be a very high rate of interest.

Mr. MORGAN. Oh, they do not mean that.

Mr. RAUSHENBUSH. I beg your pardon, Mr. Morgan.

Mr. MORGAN. I should say that in general parlance you say you extend them at 7 percent for 6 months. That means 7 percent per annum, of course.

Mr. RAUSHENBUSH. I do not know; here is the way it reads, "7 percent for a 6 months' extension."

Apparently the paragraph before shows that they had been running over 7 percent on an annual basis [reading from "Exhibit No. 2868"]:

> With the French Republic secured bonds having 18 months to run selling on a 7.7 percent basis of interest yield, and with the United Kingdom of Great Britain and Ireland secured obligations having a little less than a year to run selling on a 7.1 percent basis—not to mention longer maturities, selling in the case of the United Kingdom of Great Britain secured bonds falling due November 1, 1919, on an 8-percent basis—the rate of interest would naturally have to be comparatively high.

How would you interpret that?

Mr. RATHBONE. I think in general the bankers like as high a rate of interest as they can get. It makes their transaction very much easier. I suppose this is a negotiation between the Seligman firm and the French Government.

Mr. RAUSHENBUSH. Would you interpret that phrase as being 14 percent on an annual basis?

Mr. RATHBONE. I do not know what Seligman meant. I should not think so.

Mr. MORGAN. You say "a rate of 7 percent." That means per annum.

Mr. WHITNEY. It always means per annum. I do not know anything about that transaction, of course.

Mr. RAUSHENBUSH. It says "7 percent for a 6 months' extension."

The CHAIRMAN. This does not say "at the rate of."

Mr. **Morgan**. It says, "at the rate of 7 percent", does it not?

The **Chairman**. No.

Mr. **Raushenbush** (reading):

> Under the circumstances, the rate of interest which we suggested to you, namely, 7 percent for a 6 months' extension."

Mr. **Lamont**. Well, 7 percent.

Mr. **Raushenbush**. I now offer a letter from the Acting Secretary to Mr. Tardieu, dated October 9, 1917, showing that Mr. Lamont apparently was interested in this. Do you remember that, Mr. Lamont?

Mr. **Lamont**. Interested in what?

Mr. **Raushenbush**. In this first French maturity, this Seligman matter.

Mr. **Lamont**. No; I have no recollection of it.

Mr. **Leffingwell**. Who was the Acting Secretary then, Mr. Raushenbush?

Mr. **Raushenbush**. Mr. Crosby [reading "Exhibit No. 2869"]:

> My Dear Mr. Tardieu: I have the honor to acknowledge receipt of your communication of the fourth instant relating to the loan of your Government falling due in New York on the 15th of October. Understanding that Mr. Lamont of Morgan & Co. is expecting to see me on this subject tomorrow, I presume no specific answer to your communication is now needed. I may say, however, that if you can conveniently relocate this loan in any banks other than those now holding it, and at a better rate of interest, and without public adverstising, I would think it a very desirable thing to be done. I wish you every success in the efforts you are making to that effect. As to future issues, amounting to $50,000,000, besides the $12,000,000 now in question, it seems to me rather premature now to discuss the question until more precise terms as to the omission may have been studied.
>
> I can but express regret that the opportunity which you had for the renewal of the $12,000,000 maturing on October 15 was not accepted by you. I trust indeed that this offer is still open, and if so it is my duty, I think, to recommend that you accept it.
>
> Holding myself in readiness at all times to take up the question further with you, I remain,
>
> Very sincerely yours,

(The document referred to was marked "Exhibit No. 2869" and appears in full in the text.)

Mr. **Lamont**. No; I have not the slightest recollection of that.

Mr. **Raushenbush**. During all this time, Mr. Lamont, your main interest was in the demand loan. If you were seeing the Treasury about anything, that is presumably what you were seeing it about, was it not?

Mr. **Lamont**. What time is this?

Mr. **Raushenbush**. This is October 9, 1917.

Mr. **Lamont**. We had nothing to do with it. I do not recall that we were having any talks in the autumn of 1917 about anything.

Mr. **Raushenbush**. Do you not remember, Mr. Lamont, that a little while after this they decided to switch over into Treasury bills, and you were interested in that?

Mr. **Lamont**. Oh, certainly, certainly.

Mr. **Raushenbush**. Do you care to make any comment, Mr. Leffingwell?

Mr. **Leffingwell**. I think during all that period—this letter is an illustration of it—the Treasury was pressing the Allies to finance their maturities and so far as it was practicable to do so without public issue, that is, by Treasury bills or other short-term paper. This letter of Mr. Crosby's is an illustration of a policy which was pursued with only moderate success, but pursued to the full extent it could be pursued all through that period.

Mr. **Raushenbush**. Then we have a letter from Mr. Lamont to Mr. Crosby, dated October 13, 1917 [reading "Exhibit No. 2870"]:

> Dear Mr. Secretary: Referring to our conversation last Tuesday, the French people accepted in very good part your decision to make no public statement, at any rate for the present, in connection with their desire to issue Treasury bills, and we reiterated to them our inability to offer these bills in the absence of the express approval of the Treasury.
>
> The Commission thereupon requested that we cooperate with it in arranging for a line of discount not to exceed $10,000,000 with its present bank depositaries. This, of course, we were glad to do, not as a matter of business, but as a matter of good will; and for your confidential information I may state that the New York depositaries let them have, upon their 90-day note, approximately the sum requested. Very possibly, through some director in one of these institutions who talks, the matter of this confidential transaction may appear in the newspapers. If it does, and we are asked to comment upon it, I plan to say, in effect the following:
>
> "The report that there has been an offering of French Treasury bills is incorrect. The French Treasury carries considerable current balances in New York, and may occasionally arrange temporary accommodations with its depositaries, like any other banking customer. If any such temporary loans have recently been made, they are inconsiderable in amount."
>
> I am confident, from my thorough talk with you, and your complete outline of the situation and your own attitude, that the foregoing falls in with your own ideas.
>
> Very truly yours,

(The document referred to was marked "Exhibit No. 2870" and appears in full in the text.)

Mr. **Raushenbush**. Does that remind you of the thing, Mr. Lamont, and what was going on then?

Mr. **Lamont**. I am sorry, Mr. Raushenbush; I have not the slightest recollection of the thing.

Mr. **Whitney**. Mr. Raushenbush, we did sell $9,200,000 French Treasury bills in October 1917.

Mr. **Raushenbush**. Yes; and those were paid out of the United States Treasury, were they not?

Mr. **Whitney**. I would not know that.

Mr. **Raushenbush**. We have a memorandum for Mr. Leffingwell dated March 29, a Treasury memorandum, showing the French bank balance of April 1 and the balance on the morning of April 15, and there is listed there, under the head of "April 15 purchases" Treasury bills, $9,200,000. Do you remember this at all, Mr. Leffingwell?

Mr. **Leffingwell**. What is that memorandum you are reading?

Mr. **Raushenbush**. It is the memorandum signed by A. R., which we presume is Mr. Rathbone, and N. H. D., which we presume is Mr. Davis, indicating that the French had gotten from the Treasury that $9,200,000 in the Treasury bills.

(The document referred to was marked "Exhibit No. 2871" and is included in the appendix on p. 9282.)

Mr. **Leffingwell**. The memorandum seems right to me, but you have omitted, of course, the most fundamental thing that happened in the relations between the two Governments, and that is the arrangement made by the Secretary of the Treasury with Mr. Andre Tardieu on or about the 12th of March, which entitled the French

Government to apply the dollar equivalent of the francs which the French Government was providing to the American Government for the payment of its indebtedness.

It seems to me important that, instead of attempting to understand the course of events as between the French Government and the American Government by sidelights furnished from the files of Seligman or Morgan, who were, after all, bystanders in a great war being waged by two great countries, you should take the opportunity to introduce at this stage the fundamental agreements, at least, which were entered into between the Governments. You cannot otherwise understand the course of events.

Mr. **Raushenbush**. Mr. Wohlforth has that material. I do not have that to introduce it at the moment.

Mr. **Leffingwell**. Do you not think that for your own understanding of it and in order to help your Treasury witnesses, at least, it would be well if Mr. Wohlforth would introduce it in evidence at this point Because here is a little intradepartmental memorandum about an item of expenditure and a bank balance, which is quite incomprehensible except in the light of the arrangements which the two Governments had entered into.

Mr. **Raushenbush**. Before deciding on that, could you answer this sort of a question:

As you remember the thing now, was there any other purpose in this particular transaction which started before this agreement? It started back in October, you see. It was long before your general arrangement with the Treasury. This pay-off part came later. But before that the whole thing went through, and seems to have been an arrangement by which the French would convert this loan into Treasury bills and then be able to withdraw their collateral from underneath that loan for the use of other loans.

We have a letter from Mr. Whitney to the French financial agency, still dated in October, before your arrangement, and pointing out the wish of the French with respect to this collateral. All this is before your general agreement.

Mr. **Rathbone**. The payment was not before.

Mr. **Leffingwell**. The payment was not before, but was subsequent, and you introduced the intradepartmental memorandum which makes notation of a payment which is dated March 29, and is signed by the initials of Mr. Rathbone and Mr. Davis, and addressed to me.

I am only pointing out the extraordinary difficulty of attempting to interpret the course of Treasury policy in the absence from the record of the perfectly well-defined arrangements entered into between the Government of the United States and the Governments of Great Britain and France.

It seems to me the orderly procedure requires that you give us the benefit of those agreements, because both J. P. Morgan & Co., Seligman & Co., and all the other bankers of America, from the time of the declaration of war became just like other American citizens, sitting on the sidelines and watching the great effort that the American people were making under the leadership of their Government and in association with their Allies for the winning of the war.

You cannot interpret the Treasury in the light of bystanders' comments.

Mr. **Raushenbush.** It was a little more than sitting on the sidelines.

Mr. **Leffingwell.** They were not sitting, they were standing, and doing their part to the best of their ability, in my opinion.

Mr. **Raushenbush.** Here is a memorandum signed by R. C. L.—I take it that is you, Mr. Leffingwell—to the Secretary, with an attached draft of a letter to Mr. Tardieu. The memorandum is headed as follows:

> This letter has been carefully prepared to cover the situation which Tardieu presented to you personally sometime ago. It will be accepted by Tardieu if you approve.

The letter itself has the initials A. R. and R. C. L. on it. I take it that is the document?

Mr. **Leffingwell.** That I take to be the document. Have you had the copies carefully checked?

Mr. **Raushenbush.** I think so.

Mr. **Leffingwell.** Because that is very fundamental.

Mr. **Raushenbush** (reading):

> Dear Mr. Tardieu: I wish to thank you for your ready acceptance of my views as expressed in the recent conferences which you have had with the Treasury Department. As a result of these conferences, I understand the arrangements to be as follows:
>
> (1) All available funds of the French Government in the United States from whatever source arising, shall be used as may be required for the purpose of meeting the dollar expenditures of the French Government in the United States; and
>
> (2) Advances are not to be made to the French Government by the United States Treasury as long as the cash balances of the French Government in the United States may be sufficient to meet its day-to-day cash requirements in the United States, for which an average daily bank balance of $30,000,000 will be considered sufficient.
>
> You call my attention to the fact that the amounts which the French Government receives from the United States Government in reimbursement of the sums advanced in France by the French Government for United States Army expenditures, together with any sums received by the French Government from other sources than those advanced from the United States Treasury to France, should be available to meet the interest and principal of the obligations of the French Government created before the entry of the United States into the war, or for any other like needs of the French Government in the United States.
>
> I appreciate the force of this proposition and although I have heretofore been unwilling to assent to the use by the French Government of funds advanced to it by the United States for such purposes, I now accede to the principle that future dollar advances that may be made to the French Government by that of the United States may be used to pay, when due, the interest upon and principal of the obligations made by or for the French Government, payable in the United States, or for other like cash requirements of your Government in the United States, up to the aggregate of the amounts received by the French Government in reimbursement of the advances made by that Government for the United States Army expenditures in France, together with the amounts which may be received by the French Government from sources other than United States credits, and on the understanding that all securities now held as collateral to obligations of the French Government, and which will be released by the payment of the said obligations, as well as all other securities held by your Government in the United States, shall be used by you in such manner as may be agreed between us as most advantageous in the common interest.
>
> In accepting the distinction between the two classes of funds above referred to, I wish to express the hope that before making arrangements to pay maturing obligations you will confer with the Treasury Department in relation to the matter. In the common interest it may well be more desirable

when obligations mature, either to extend them or to make some other arrangement in respect thereof, rather than to pay them off.

A full exchange of views between your Government and the Treasury Department in relation to all such matters, will, I am confident, be mutually advantageous.

(The document referred to was marked "Exhibit No. 2872" and is included in the appendix on p. 9284.)

Mr. RATHBONE. I think that is exactly correct; yes. Of course, I have no opportunity of comparing it with the original as it was sent.

I would like, if it meets with the approval of the Committee, to state just what the arrangement was between the French Treasury and the American Treasury regarding these matters.

Mr. RAUSHENBUSH. As of what date, Mr. Rathbone?

Mr. RATHBONE. It began in March 1918 and was continued throughout the rest of the period of the Treasury advances. I would like to read this statement into the record [reading "Exhibit No. 2873"]:

MEMORANDUM REGARDING FRENCH MATURITIES (BY ALBERT RATHBONE)

I. The United States Treasury never obtained any rights of subrogation in respect of securities pledged by the French Government to secure loans floated in the United States prior to the entry of the United States into the war. As a result of conferences theretofore had between our Treasury and the French Government an arrangement (set forth in Secretary McAdoo's letter to M. Tardieu of March 1918, and confirmed a few days later by the reply of a representative of the French Government) was entered into substantially as follows:

(1) All available funds of the French Government from whatever source arising were to be used as required to meet the dollar expenditures of France in the United States.

(2) Advances were not to be made by the United States Treasury to France while its cash balances in the United States were sufficient to meet its day to day cash requirements in the United States.

(3) Future dollar advances made by the United States to the French Government might be used to pay when due the interest upon and principal of the obligations made by or for the French Government payable in the United States or for other like cash requirements of the French Government in the United States up to the aggregate of the amounts received by the French Government in reimbursement of the franc advances made by the French Government for the United States Army expenditures in France, together with the amounts which might be received by the French Government from sources other than United States credits.

(4) All securities then held as collateral to obligations of the French Government released by the payment of said obligations as well as all other securities held by the French Government in the United States were to be used in such manner as might be agreed upon between the United States Treasury and the French Government as most advantageous to the common good.

II. In June 1918 the Secretary of the Treasury received a communication from M. Clemenceau, then President of the French Cabinet, calling upon the Secretary "* * * personally at the most critical time of the war, in order to ask a financial assistance just as indispensable to victory as the military assistance which your country is giving us so generously." Among other things, it called attention to the peculiar financial position of France because of its being the battlefield, and set forth that the productive capacity of France had been diminished by more than one-third, that its currency, practically reduced to paper money, must suffice not only for French needs but also for those of "the Allies because the Allied armies are fighting on French soil." It further stated that the French treasury had placed at the disposal of the "Allied Governments" for the month of April 460,000,000 francs (of which 310,000,000 were for the American Army), for the month of May 940,000,000 francs (of which 750,000,000 were for the American Army), and for the first 6 days of June 220,000,000 francs for the American Army.

Mr. Clemenceau requested:

(1) That a discrimination be made between the advances made to France by the American Treasury "which must be repaid after a period of time" and the dollar equivalent of the francs advanced by the French Government to provide for the expenses of the American Army in France. He suggested that these dollars be put at the disposal of the French Government in the form of a current account, the actual drawings therefrom during the war to take place on conditions to be agreed upon.

(2) That the equivalent of 2,300,000,000 francs be deposited in gold in a bank of the Federal Reserve System to the credit of the Bank of France "against an equal previous deduction in our cession account" to be employed for French purchases in the United States after the war or if the Secretary of the Treasury preferred putting this gold at the disposal of the Federal Government when France's money circulation came down after the war to a level to be agreed upon.

M. Clemenceau further stated that he addressed this communication as the head of the French Government, that it was a question of direction of the war, important for the security of our troops as well as theirs, that France was menaced with a crisis of its fiduciary circulation and was facing a terrible situation.

Parenthetically, that was a communication at a very dark day in the war from the head of the French Government, and had to receive the most serious consideration.

III. Early in July 1918 Secretary McAdoo replied at length to the communication from M. Clemenceau. He refused to assent to any change in the arrangement of March 1918 and stated that he did not feel he could sanction advances of dollars to an Allied Government while it had dollar funds available. Further he stated that he noted the apprehensions of the President of the French Cabinet of the gravity of the financial situation due to the increased issue of bank notes in France and fully appreciated the serious consequences which might result from a depreciation in the French bank notes. He stated further that to meet the conditions presented as an emergency he was prepared immediately to establish in favor of the French Government against its obligations in a corresponding amount a special credit in dollars to an amount equivalent at the then rate of exchange to 1,000,000,000 francs, to be made available and dealt with in such manner as should be agreed upon between the Secretary of the Treasury and the representatives of the French Government.

IV. The maturities the payment of which the French Government reported aggregated $289,744,755 and the dollar equivalent of the francs furnished by the French Government, for our army expenses aggregated $1,025,438,235.88 (1920 Report of the Secretary of the Treasury). Had it not been for the agreement of March 1918 or some similar arrangement it would have been the absolute property of France and could have been used by it at any time and for any purpose it saw fit. It aggregated an amount very greatly in excess of the aggregate of the French obligations sold in this country before we entered the war and paid from our Treasury advances to the French Government and by France using, for war supplies it purchased in the United States in accordance with the March 1918 agreement, dollars it received for francs. Our Treasury loans to France were smaller by a considerable amount than otherwise would have been the case.

(The document referred to was marked "Exhibit No. 2873" and appears in full in the text.)

Mr. Wohlforth. Mr. Rathbone, may I ask this at this point?

All the French maturities coming due in this country between April 6, 1917, and the armistice were taken care of out of the United States Treasury; is not that correct? You mentioned it here on the top of page 4, and there were other maturities in addition.

Mr. Rathbone. Those are the payments which the French Government reported as having maturities paid out of the American Treasury advances, and are shown in the report of the Secretary of the Treasury for 1920.

Mr. **Raushenbush.** Mr. Rathbone, that first sentence—

> The United States Treasury never obtained any rights of subrogation in respect of securities purchased by the French Government to secure loans floated in the United States prior to the entry of the United States into the war—

that would seem at first glance to be, as I read it, a little different from the March arrangement, would it not?

Mr. **Rathbone.** It is stating a fact. We never were given any rights of subrogation.

Mr. **Raushenbush.** In this letter I have just read from Secretary McAdoo to Mr. Tardieu, there was this phrase [reading from "Exhibit No. 2872"]:

> On the understanding that all securities now held as collateral to obligations of the French Government, and which will be released by the payment of the said obligations as well as all other securities held by your Government in the United States, shall be used by you in such manner as may be agreed between us as most advantageous in the common interest.

Mr. **Rathbone.** That is not a right of subrogation.

Mr. **Raushenbush.** No; it is not exactly.

Mr. **Rathbone.** It is very different.

Mr. **Raushenbush.** What did happen? The British securities were subrogated, were they not, on the British maturities?

Mr. **Rathbone.** You cannot just say the British securities were subrogated. I can tell you about the British, if you want, at this time.

Mr. **Raushenbush.** Mr. Leffingwell, could you give us an idea of the difference between the two policies with respect to the two governments there?

Mr. **Rathbone.** I can give you an idea of the difference in the policy of the two governments.

Mr. **Raushenbush.** Could you answer that specific question, though, first?

Mr. **Rathbone.** No; you cannot answer a question like that. You speak of British securities. That comprises——

Mr. **Raushenbush.** On the maturities coming due, as they were paid off in the Treasury.

Mr. **Rathbone.** Yes; but that comprises a great many more securities than the United States Treasury was ever given any so-called "right of subrogation to", so you cannot answer that question specifically.

Mr. **Raushenbush.** Let me try to rephrase it:

On the British maturities coming due after our entry into the war, which were paid out of the United States Treasury, was not the Treasury subrogated to the securities behind those maturities?

Mr. **Rathbone.** Supposing I read this, because it will explain the whole thing.

Mr. **Raushenbush.** What is that?

Mr. **Rathbone.** This is in regard to the subrogated British maturities.

Mr. **Raushenbush.** All right.

Mr. **Rathbone.** I am going to ask Mr. Leffingwell if he will read it for us.

Mr. **Raushenbush.** You can ask one of our staff here to read it, if you want to.

Mr. **Wohlforth**. The document handed to me is entitled, "Memorandum Regarding Subrogated and Other Securities of the British Government Physically in the United States", by Albert Rathbone[1] [reading 'Exhibit No. 2874"]:

1. The arrangements between the United States Treasury and the British Government in regard to securities owned by the British Government and physically within the Unied States on February 1, 1918 (whether pledged to secure the so-called overdraft or pledged to secure the 1-year and 2-year 5½ percent notes of the British Government which matured February 1, 1918, or pledged to secure the 2-year 5 percent secured loan gold notes of the British Government which matured September 1, 1918, or unpledged), were arrived at by interchange of cables or letters and through many oral discussions between the United States Treasury officials and representatives of the British Government. This arrangement is accurately set forth in a letter addressed by Sir Hardman Lever, Financial Secretary of the British Treasury, to Albert Rathbone, Assistant Secretary of the United States Treasury, under date of July 8, 1919, and the accuracy of the arrangement as therein set forth was confirmed by Mr. Rathbone's letter to Sir Hardman Lever of the same date.

2. In view of the changes in personnel in both the United States and British Treasuries that were bound to occur sooner or later, it was thought advisable that the arrangements between the Treasuries before referred to which were thoroughly understood by those then controlling both Treasuries, should be set forth in detail in one document. Accordingly the letters above-mentioned were prepared originally in draft form and as the result of conferences between representatives of the two Treasuries, the original drafts were changed so that said arrangements were succinctly set forth in Sir Hardman Lever's letter of July 8, 1919.

3. As by July 8, 1919, it was apparent that the war, so far as active fighting was concerned, had terminated, the foregoing arrangements except those affecting the subrogated securities of the British Government had been entirely fulfilled and the British Government was so advised.

4. The securities covered by Sir Hardman Lever's letter, other than those in respect of which the United States Treasury was given the right of subrogation, were never pledged to secure any loan which was paid out of our Treasury advances to the British Government. Those securities were owned or controlled by the British Government which, so far as our Treasury was concerned, had the absolute right to deal with them as they pleased until at Secretary McAdoo's request the British Government entered into the aforesaid arrangement in respect thereof. The purpose of that arrangement was to give the United States Treasury a voice in determining the use during the war of such securities for the common good and to help if necessary in obtaining the finance required in order to win the war. It was never intended nor agreed that such securities should ever be pledged to secure any loans made by the United States Treasury to the British Government.

5. The subrogated securities consisted of: (1) 91,931/234,837 of the securities deposited under the trust agreement to secure the 1- and 2-year 5½-percent notes of the British Government; and (2) the securities deposited under the trust agreement to secure the 2-year 5-percent secured-loan gold notes of the British Government.

Except that insofar as any of such securities, with the consent of the Secretary of the United States Treasury, were used by the British Government for the purpose of rectifying neutral exchanges, they were not to be included in the arrangement stated and were not to be considered in determining the proportion of the securities formerly pledged to secure the 1- and 2-year notes, as to which subrogation was given the United States Treasury.

The United States Treasury had the right of subrogation in respect of its advances to the British Government in the sum of $91,931,000 of the securities under subdivision (1) above and in respect of its advances to the British Government in the sum of $192,842,000 in respect of the collateral specified in subdivision (2) above.

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[1] In this connection see also "Memorandum about Subrogated Securities and other Securities" and "Postscript about Subrogated Securities and other British Securities", both by R. C. Leffingwell, which are included in the appendix on pp. 9492 and 9493. They were submitted to the committee under dates of Feb. 6 and Feb. 24, 1936, respectively, by Mr. Leffingwell.

6. The securities pledged under the trust agreements last mentioned were the only securities as to which at any time the United States Treasury had the right of subrogation except only as by agreement between the two Treasuries from time to time certain subrogated securities were released against the addition to the subrogated securities of other securities of substantially equal value.

7. The "subrogated securities" were never in the possession of the United States Treasury. That term was used to define the securities which the British Government was obligated at the request of the Secretary of the Treasury to deposit with the Treasurer of the United States or in case the Secretary of the Treasury should so request, with such depositary as the British Government should approve to secure as to one lot of such securities British Government obligations held by the United States Treasury to the amount of $91,931,000 and as to the remainder of the subrogated securities to secure British Government obligations similarly held to the amount of $192,842,000. No such request was made by the Secretary of the Treasury prior to July 1, 1920, nor it is believed thereafter.

Mr. RATHBONE. May I just interpose there? I put in the date July 1, 1920, because that was the first day that I had ceased to be an Assistant Secretary of the Treasury and I knew of my own knowledge up to that date what happened. After that date I am pretty sure I am credibly informed that no such request was made.

Mr. WOHLFORTH (finishing reading "Exhibit No. 2874"):

8. It is believed that until the funding of the British short-term obligations into long-term obligations, and certainly until June 30, 1920, the right of the United States Treasury to require the pledge of the collateral to secure the British Government obligations in the amounts aforesaid remained unimpaired. There was no payment made which diminished the principal amount of the debt to the United States in respect of which the British Government was obligated to pledge the subrogated securities unless possibly (and it is not believed to be the case) the proceeds of sale of certain of the subrogated securities were so applied.

9. After the Armistice the British Treasury representatives urged the United States Treasury to release the British Government from its obligation in respect of the subrogated securities, but no such release was given by Secretary Glass or Secretary Houston although both Secretaries stated they were prepared to give such release in connection with an agreement for the exchange of the British short-term obligations into long-term obligations and were so advised by Assistant Secretaries Leffingwell, Rathbone, and Davis.

10. In this connection it is interesting to note that the maturities the payment of which the British reported aggregated $353,501,561.66, while the dollar equivalent of the pounds furnished by the British to meet our war expenses which had to be paid in English currency aggregated $449,496,227.55 (Report of the Secretary of the Treasury for 1920). This latter sum in no sense was a loan from our Treasury, but a British asset derived from its sale of its currency.

(The document referred to was marked "Exhibit 2874" and appears in full in the text.)

Mr. RAUSHENBUSH. What was the reason, Mr. Leffingwell, for the difference between the treatment of the French in regard to subrogation, and the treatment of the British?

Mr. LEFFINGWELL. It is always a little difficult to analyze the course of negotiations between governments without analyzing also the course of events and how the problems presented themselves to the two governments.

The situation presented itself really in rather reverse form. The acuteness of the problem in relation to the maturities of Great Britain occurred at an earlier date. I think that was probably one reason for the difference. I think partly the reason for the difference was that the French presented their case through Mr. Andre

Tardieu very effectively at that period in February or March when our very large disbursements in France first became a burden upon the American Treasury.

It is very hard to give you a succinct answer, but the British maturities came faster than French maturities in important amounts, I should say, and the need of the American Government for francs presented itself faster and in larger amounts. We had our Army in France and France was the battlefield, and the urgency of the pressure for francs was heavier.

I think the French case was better presented and probably the Treasury saw the point more clearly; that probably explains the fact that the arrangements entered into which Mr. Rathbone has described in these two to me admirably clear memoranda were undoubtedly more severe toward the British than toward the French.

Is that approximately responsive to your question?

Mr. **Raushenbush.** Yes; surely.

Was there also the fact that during the situation there was more danger of the French credit going to pieces than the British? In the second paragraph of this memorandum of Mr. Rathbone's he quotes Clemenceau as calling attention to the fact that France was reduced practically to paper money as far as its currency was concerned. Was not that also one of the key factors?

Mr. **Leffingwell.** This agreement made on March 12, which you read into the record, was presented at a time before any such acute problem in regard to the French currency had occurred, either to the American Government or to the French Government. I think it is safe to say that that problem which Mr. Clemenceau presented so forcibly to the Secretary of the Treasury of the United States became vividly acute in the minds of either Government only when the German advances had proceeded so far that Paris was under gunfire, and when the American Army in France had reached such numbers that immense expenditures were presenting to the French Government a very grave problem in the creation of francs.

So I imagine that probably the proper conclusion is the one I first indicated, that the March agreement really settled the general character of the relations of the two Treasuries in regard to the provision of foreign currencies before there existed the kind of apprehension which was reflected in Mr. Clemenceau's cable, which came along in June, did it not?

Mr. **Rathbone.** Yes; I think it was June.

Mr. **Raushenbush.** Yes; it was June or July; June.

Mr. **Rathbone.** About that time, too, the representatives of the French Treasury were suggesting that we get our francs in some other way than getting them from the French Government, either buying them on the exchange or making some arrangement with the Bank of France, because it would be better for them than the arrangement we had with the French Government to supply the francs.

Really, it comes down to this, it seems to me: The difference in the arrangements of the United States Treasury with the British Treasury and the French Treasury was that we had two different governments dealing with us; we were anxious, as far as possible with each one of them, too, to have as much benefit as we could get from their resources derived from other means than the United States

Treasury advances, and we made the best bargain with each of them that we could make for the purpose of diminishing our loans. Is not that a fact?

Mr. LEFFINGWELL. That is correct.

Mr. RAUSHENBUSH. I notice here in a Treasury memorandum dated March 19, 1918, which I offer for the record, the following sentence [reading from "Exhibit No. 2875"]:

> It was necessary during the period—

That is, the period since March 1917—

> to provide funds to enable the French Government to meet its maturing obligations in the United States, that Government having then no other funds available for such purposes—

Which would seem to indicate that by the March before this Clemenceau letter, the situation had——

Mr. RATHBONE. You are reading from what?

Mr. RAUSHENBUSH. It is being put before you.

Mr. LEFFINGWELL. I think the answer that occurs to me is that by that time—and Mr. Rathbone will correct me—the Treasury control of the bank balances of the Governments was becoming more and more effective, so that the control of bank balances prevented the accumulation of the dollar equivalent of the francs provided on the other side in the banks here, and the absence of other cash resources was partly the result of that measure of control.

But Mr. Rathbone could explain it better than I, and I hope he will correct what I have said.

Mr. RAUSHENBUSH. Do you have any comment on the paragraph I have just read, Mr. Rathbone?

Mr. RATHBONE. I am afraid I was trying to identify the document and not listening to just what was read.

Mr. RAUSHENBUSH. I had read that first line in the second paragraph.

(The document referred to was marked "Exhibit No. 2875" and is included in the appendix on p. 9285.)

Mr. RATHBONE. I think you will understand the situation if I take a moment to explain the actual operations.

Under the March 1918 agreement with the French Treasury, they were to have the use of the dollars we paid them for francs that we needed for the purposes of paying their maturities.

We did not, however, permit them to put in a separate fund the dollars they thus received and hold them in their own bank balance in order to pay their maturities when their maturities became due. We made them use that money for their purposes and purchases in the United States, and when it was exhausted, then we made additional loans.

Therefore, when a French maturity became due, a loan was made by the United States Treasury for the purpose of paying their maturities.

Mr. RAUSHENBUSH. Yes.

Mr. RATHBONE. The other way around, of course, would have been that France would have built up a big bank balance and idle money when money was needed for so many other purposes.

Mr. Raushenbush. Completing this Seligman transaction with a few exhibits, one is from Mr. Whitney to Mr. Bloch, dated October 29, 1917, showing the pulling out of the collateral there.

Letter dated December 9, 1917, from de Billy, the High Commissioner, to the Minister of Finance of France.

Letter of December 3, 1917, from Mr. Leffingwell to Mr. Simon, having to do with the deposit of francs abroad.

Telegram dated the 17th of December 1917, from Finance to the High Commissioner concerning the restriction on the use of dollars.

Letter from Mr. Leffingwell to Mr. Tardieu, dated February 12, 1918.

(The documents referred to were marked "Exhibits Nos. 2876 to 2780", inclusive, and are included in the appendix on pp. 9285 to 9287.)

Mr. Raushenbush. Do you have that in front of you, Mr. Leffingwell?

Mr. Leffingwell. Yes.

Mr. Raushenbush. Please note the second paragraph [reading from "Exhibit No. 2880"]:

> I ought, perhaps, to mention that Mr. Simon was mistaken in thinking that there has been any change in the view of the Secretary as to the maturing obligations of your Government.

So, up to February, about a month before that March letter, the Government was still holding to that position, was it not, that we were not going to pay money for these maturing obligations of the French; is that correct?

Mr. Leffingwell. Evidently.

Mr. Raushenbush. A wire from Crosby to the Secretary of the Treasury from Paris, dated March 11, 1918, in which he points out in the middle of the wire [reading]:

> My own view is that it is better to make adjustment by having them invest some of the moneys advanced to us here in our certificates of indebtedness to be used when their quarterly mature rather than to enter into any positive engagements for meeting their quarterly a long time in advance.

(The document referred to was marked "Exhibit No. 2881", and is included in the appendix on p. 9287.)

Mr. Raushenbush. Do you remember about that, Mr. Leffingwell? Was Mr. Crosby all the time trying to put on pressure to have these Governments refund, if possible at all?

Mr. Leffingwell. I do not understand that and I do remember about it. I do not know just what you mean by the question you ask, Mr. Raushenbush.

Mr. Raushenbush. We seem to get from some of these letters as we have gone through them that Mr. Crosby happened to have the idea that these Governments should try hard to refund their loans instead of coming to the United States and asking that they be paid off; that they should try under various circumstances to get them refloated. That particular letter is only one of many.

Mr. Leffingwell. I do not remember what Mr. Crosby's views were at that time, but this cable, as I understand it, is a suggestion. The passage that you have underlined says [reading]:

> My own view is that it is better to make adjustment by having them invest some of the moneys advanced to us here in our certificates of indebtedness to be used when their quarterly mature—

I suppose that means when they quarterly mature?

Mr. RAUSHENBUSH. Yes.

Mr. LEFFINGWELL (continues reading):

> rather than to enter into any positive engagements for meeting their quarterly——

Mr. RAUSHENBUSH. That is the way it reads here.

Mr. LEFFINGWELL (continues reading):

> quarterly a long time in advance.

It is hard to know just what that does mean. That has evidently been garbled in transmission, as so many of the cables were. They were put in codes.

But if Mr. Crosby's suggestion was that the proceeds of the dollars which were the equivalent of the francs which the French Government was providing—that cable, which is dated March 11, the same date as the arrangement entered into by the Secretary of the Treasury, must have been received, therefore, after that arangement was entered into—that cable would seem to have suggested an increase in the notes or certificates of indebtedness of the United States and to have necessitated the Government of the United States borrowing money from the French Government. That would have been wholly unacceptable to the Treasury of the United States and the Secretary of the Treasury of the United States—to put itself unnecessarily and avoidably in the position of a debtor to any of the Allied Governments. It was far better to make the arrangement which was set forth in the agreement bearing the same date, by which they established the set-off and the United States did not have to pay interest to France, but acknowledged the fact that France had an equity on account of having provided those francs for the use of our Army in France, and that having that equity, without paying interest to France, or incurring an indebtedness to France, we would recognize the equity when the requirement arose, in due course.

And actually, if I assume that that cable means what it might have meant, the suggestion of Mr. Crosby, on the other side—of course at that time he had no responsibility for domestic finance—must have been rejected as any such suggestion would have been rejected because of the fact that it involved an increase in the indebtedness of the United States, the creation of an indebtedness to a foreign government.

It was one of the main objectives of our relations with the Governments of the Allies so to conduct our arrangements that the United States Government should never become a debtor to foreign governments, even Governments of the Allies. Those arrangements were effective, and whereas each of the major governments other than the United States emerged from the war with a very heavy foreign debt and took the part both of a borrower and a lender, the Government of the United States adopted a different policy, one which has worn well, and that was the policy of so arranging set-offs and intergovernmental accounts that the Government of the United States emerged from the war without any foreign debt whatever.

For that reason, any suggestion of the creation of an indebtedness of that sort would have been most unacceptable to the policies of the Treasury of the United States.

Mr. **Raushenbush.** I did not quite understand that, "emerged without any foreign debt." You mean without having borrowed from any foreign government?

Mr. **Leffingwell.** Yes. In other words, instead of borrowing from a foreign government and paying interest on that borrowing, we said "No; you have cash in the bank. We are not going to borrow money from you. But we recognize the fact that you are providing us with francs today, and that those really are your francs, and the fact that you have provided us with those francs establishes in your favor an equity when you have an obligation of yours that you have to honor, and you assert the right to honor it out of the funds which are yours and not ours."

Mr. **Rathbone.** May I say one word generally about cables?

The **Chairman.** Just a moment.

Mr. **Raushenbush.** After this March 11 agreement, Mr. Leffingwell, picking up what you said, the thing was not quite fixed still, was it, the whole policy? Here on March 19, about a week after that, there is a memorandum from Mr. Rathbone to yourself that seems to indicate the thing was still in flux to a large extent.

May I ask you about that before Mr. Rathbone interjects here? This is from a "Memorandum for Mr. Leffingwell" [reading]:

> The French maturities for 1918 aggregate but $74,000,000. While it might be possible to pay one-half of the industrial credits of $50,000,000 and extend the balance for a short period, in view of the amounts of the past and expected future reimburements to the French for our Army expenditures in France and the French maturities after 1918, about $200,000,000 in 1919 (exclusive of cities of Lyons, Marseilles, and Bordeaux loan of $36,000,000) and $250,000,000 in 1920 (one-half of Anglo-French bonds), it is recommended that the Treasury make no objection to the payment by the French Government of these maturities up to the equivalent of the amounts reimbursed the French for our Army expenditures.

(The document referred to was marked "Exhibit No. 2882" and is included in the appendix on p. 9288.)

Mr. **Raushenbush.** Did we not get the impression from the discussion here that that was all settled in the McAdoo to Tardieu letter? And here Mr. Rathbone is recommending still that there be no objection to the payment by the French Government of these maturities up to the equivalent of the amount to reimburse the French for Army expenditures.

Mr. **Rathbone.** There is no question that the matter was settled by the March letters which you have read. The question came up as to a possible extension of part of these industrial credits. Probably the words that "the Treasury make no objection" were not very good language. But it is true that the French Treasury officials were consulting with us on what was best for the common good. My recommendation as embodied in that memorandum was to pay the thing off rather than to try to extend part of it.

Mr. **Raushenbush.** In mentioning these maturities that did not come due until 1919, you were including those, too, in your recommendation, that there be no objection that these be reimbursed in that way?

Mr. **Rathbone.** We were referring in that memorandum to the French maturities aggregating some $500,000,000, and at the date the amount that the French were entitled to use to pay maturities under the arrangement was a little less than $51,000,000.

Mr. **Leffingwell.** But the answer to the question is, if I understand your memorandum, you were not making the suggestion that they pay the Anglo-French bonds at all?

Mr. **Rathbone.** No.

Mr. **Leffingwell.** That had nothing to do with it. That was just a recital of the amount of the indebtedness they had, was it not?

Mr. **Rathbone.** That was really it, yes.

Mr. **Leffingwell.** The question had to do with these 1918 maturities of $74,000,000, did it not?

Mr. **Rathbone.** Yes.

Mr. **Leffingwell.** And the industrial credits?

Mr. **Raushenbush.** Those in 1919 are interesting, too. Did it not work out that we did pay off all the French maturities from April 6 up to the time of the Armistice, and then paid about $200,000,000 after the Armistice? Is not that the way it worked out?

Mr. **Rathbone.** I do not remember whether we paid $200,000,000 after the Armistice.

Mr. **Raushenbush.** We will come to that in a minute.

Mr. **Rathbone.** But the purpose of that memorandum is to show that maturities in 1918, $74,000.000, were greater than the amount of the dollars received by France for francs up to that time, and it was my thought that, although France had received just under $51,000,000, they were going to receive a great deal more, and we had better not stand on the question of time but go ahead in accordance with the arrangement already made and pay off those maturities.

Mr. **Leffingwell.** Mr. Raushenbush, I think I can supplement Mr. Rathbone's memory in answer to your question about those French maturities. As a result of that telegram from Mr. Clemenceau and subsequent negotiations with his advisers here, special credits were established in aid of the Bank of France and the French Government, which did result in the creation in the early autumn of 1918 of two French credits and the release—and you correct me, Mr. Rathbone, if I am wrong—of the securities pledged behind those French credits for the purpose of the support of the neutral exchanges, and the ultimate payment, the deferred payment, of those two French maturities in 1919, as you correctly stated. But the credits were established and the arrangements made for them in the course of a series of negotiations which began with the French Premier's cablegram in June, and which continued on into October. Is that correct?

Mr. **Raushenbush.** Just one further question of memory there: Was not that $200,000,000 that was paid after the armistice of maturities in addition to the $200,000,000 that were paid to the Bank of France direct?

Mr. **Leffingwell.** Yes, correct; but they both grew out of that request of Mr. Clemenceau's, if I remember correctly.

Mr. **Raushenbush.** I want to enter a memorandum of payments made by the financial agency of the French Government at New York from May 1 to June 15, from the $150,000,000 received from the American Government, it just being a list of the things to which they put the expenditures.

(The document referred to was marked "Exhibit No. 2883", and is included in the appendix on p. 9288.)

Mr. **Raushenbush.** I also wish to offer for the record a schedule of all expenditures from the United States Government credits during the period from May 1 to December 31, 1917, and to point out that on May 2, 1917, we were paying the interest on the du Pont Treasury bills, given to this company by the French Government in payment for powder.

(The document referred to was marked "Exhibit No. 2884", and is included in the appendix on p. 9290.)

Mr. **Raushenbush.** Mr. Chairman, there is one interesting thing about that. When the du Pont witnesses were before us, they testified that they had supplied the United States Government with relatively cheap powder, 53 cents a pound, as I remember it, and they had charged the Allies, it is true, $1, $1.12, and $1.25, various ranges. They made the point several times very emphatically that all their taking of profit was at the expense of the Allies, and here it develops that some of that was paid directly out of the United States Treasury. The committee might be interested in that.

Mr. **Leffingwell.** What is this paper?

Mr. **Raushenbush.** French Government schedule of all expenditures from United States Government credits from May 1 to December 31, 1917.

Mr. **Leffingwell.** Do you know when that was filed in the Treasury?

Mr. **Wohlforth.** I think it was some time in 1918. It was not the monthly report. They made monthly reports and then later on made consolidated reports on the various expenditures during the months.

Mr. **Leffingwell.** But it was filed in the Treasury at some time along in 1918?

Mr. **Wohlforth.** Yes, sir; that document is in the files of the Treasury.

Mr. **Raushenbush.** This same memorandum on page 3 shows the commissions and sundries, item 4. This item refers especially to the commission paid to Messrs. J. P. Morgan & Co. a total from May to December of $1,331,727.

When did that purchasing agent agreement close, Mr. Lamont? When was this closed?

Mr. **Lamont.** The actual agency agreement closed late in the spring of 1917, as I recall it, subject to correction. August, they tell me.

Mr. **Raushenbush.** This was simply a hangover?

Mr. **Lamont.** Necessarily we continued for both the British and French Governments to pay accounts presented to us for materials.

Mr. **Raushenbush.** And about $100,000,000 worth of business, I take it, still passed through. There is a commission listed.

Mr. **Lamont.** Our commission for payments was one-eighth of 1 percent.

Mr. **Raushenbush.** I see. Then a much smaller sum would have been passed through?

Mr. **Lamont.** A much larger sum.

Mr. **Raushenbush.** A much larger sum.

Mr. **Lamont.** It went through to the end of the war, that is, those payments, and perhaps beyond.

Mr. **Raushenbush.** Then I want to offer the French Government schedule of all expenditures from United States Government credits during the period April 1 to April 30, 1918, which shows payments of Treasury bills and the first part of the fourth series of the Creusot loan of $5,000,000.

(The document referred to was marked "Exhibit No. 2885" and is included in the appendix on p. 9295.)

Mr. **Raushenbush.** I also offer for the record a similar schedule for the period March 1 to March 31, 1918, showing reimbursement of French one-year Treasury bill given to du Pont de Nemours & Co. in March 1917, in payment for powder, showing again by that item that that high-priced powder was finally paid for by the United States Government.

(The document referred to was marked "Exhibit No. 2886" and is included in the appendix on p. 9297.)

Mr. **Leffingwell.** Mr. Raushenbush, it is perhaps not important to you, but it is from the Treasury's point of view——

Mr. **Raushenbush.** Yes, sir.

Mr. **Leffingwell.** You speak of things being paid for by the United States Government. The United States Government did not pay for any of those things. The United States Government bought obligations of the French or British Governments or the Italian Government, and the French, British, or Italian Governments paid for those things, and unless the United States Government was able to establish and maintain an objection to the use which these Governments made of the sums which were the proceeds of the obligations bought by the United States Government, why, it was not a matter which the United States Treasury could take exception to.

It is terribly important to clear-thinking to realize that the United States Government did not pay any of those things. It bought obligations of its Allies in the late war.

Mr. **Raushenbush.** I elided a couple of steps there. The thing becomes important because the du Pont people put so much stress on the ground that they had been very generous toward the United States Government, and that it was the Allies who had paid for it. And I should have put in the step that if the French Government had paid in full all the obligations, then there would have been no question about it.

Mr. **Leffingwell.** Mr. Rathbone brought it out clearly yesterday, and I do not want to be overinsistent, but there is all the difference in the world between one great government buying the obligations of another great government and then not saying to that great government, "you cannot pay your bills out of that money lent you."

There is all the difference in the world between that and having the United States Government pay anybody's bills, before or after the war. The moral and economic and financial import of it to the Government and people of the United States was just as nearly opposite as it could possibly be.

Mr. **Raushenbush.** You cannot say that sort of thing, as you point out, to a foreign government, "You cannot pay this and that", and you cannot say in the last analysis that they must pay their own bills, when dealing in a field like that.

Mr. **Leffingwell.** There is another thing which you must keep in mind, and that is that the United States Treasury did not spring full armed into this war. It was a small concern when the war started.

Mr. **Raushenbush.** It grew fast.

Mr. **Leffingwell.** The mechanism of control took time to establish. These governments found it very distasteful to be invited to submit their affairs to supervision by another government, however friendly, and the gradual effect of these things was that after bills had been paid, and after maturities had been met, and after cotton, munitions, or guns had been bought, the Government of France, or the Government of Great Britain, sent in a report to the Foreign Loan Bureau, saying what they had done with the money.

When that was shown to the Treasury, if there was some item that the Treasury felt obligated to take objection to, it still had time to do it. Efforts were made in the utmost good faith, and with the utmost good will by the Allied Governments to correct, so far as they were able, anything that had been done in the next settlement of the accounts, and to find some other way of dealing with their problems.

Mr. **Raushenbush.** These schedules simply show, on their face, what the money was used for, according to the French statements.

Mr. **Leffingwell.** Yes, sir.

Mr. **Rathbone.** May I elaborate for just a moment on what Mr. Leffingwell said?

Mr. **Raushenbush.** If you think it is necessary.

Mr. **Rathbone.** The Allied Governments would ask for a loan from the United States Treasury. They would say, "We want $1,000,000 for that and $10,000,000 for this." We would then buy their obligations to that aggregate amount, if we approved of the purposes for which they wanted to borrow the money. Then that money was theirs, and we had no control over it. They could have done anything they wanted to with it. Then they reported to us, when they had spent the money.

If there was an item on the actual expenditure of the money that we did not approve, we did not think was right, there were just two courses open to the United States Treasury: We could say, "See here; we do not want you to do things of that sort with the money we loaned you"; and talk to them and argue with them and try to get an understanding, and we did always get an understanding, but if we did not, that is, get an understanding, there was nothing we could do except say, "We won't loan you any more money."

Mr. **Leffingwell.** And that you could not do.

Mr. **Raushenbush.** You could not stop, could you?

Mr. **Leffingwell.** No; not unless you stopped the war, Mr. Raushenbush, short of victory, and nobody wanted to do that.

Mr. **Raushenbush.** I offer French Government schedule of all expenditures from the United States Government credits during the period of May 1 to May 31, 1918, which shows the use of it, to pay off the biggest part of the fourth series of the Creusot loan.

(The document referred to was marked "Exhibit No. 2887", and is included in the appendix on p. 9298.)

Mr. **Raushenbush.** I also offer for the record French Government schedule of all expenditures from United States Government credits during the period of June 1918, which shows the third and last part of the fourth series of the Creusot loan, $5,000,000.

(The document referred to was marked "Exhibit No. 2888", and is included in the appendix on p. 9299.)

Mr. RAUSHENBUSH. I also offer for the record French Financial Agency memorandum showing the payments for certificates accruing on the French industrial credit, $50,000,000.

(The document referred to was marked "Exhibit No. 2889", and is included in the appendix on p. 9300.)

Mr. RAUSHENBUSH. I offer for the record a memorandum of United States advances to France during July 1918, showing [reading]:

> The following figures on the assumption that no reimbursements for United States Army expenditures in France will be paid after July 8, 1918.

(The document referred to was marked "Exhibit No. 2890", and is included in the appendix on p. 9301.)

Mr. RAUSHENBUSH. I also offer the French Government schedule of all expenditures from United States Government credits and from other credits involving purchases in the United States during the month of July 1918, showing that on July 11 payments of interest and matured credits on French industrial credit amounted to $50,000,000.

(The document referred to was marked "Exhibit No. 2891", and is included in the appendix on p. 9302.)

Mr. RAUSHENBUSH. Mr. Wohlforth, will you pick up from that point?

Mr. WOHLFORTH. Before I go ahead, Mr. Rathbone, I think I made an error in reading your memorandum on the subrogated securities.

Mr. RATHBONE. Is this the British?

Mr. WOHLFORTH. The British.

I said: "The subrogated securities consist of"—is that supposed to be a fraction?

Mr. RATHBONE. Yes; a fraction.

Mr. WOHLFORTH. That is roughly three-eighths?

Mr. RATHBONE. I have not computed it.

Mr. WHITNEY. It is the proportion of the total amount of loans outstanding for 1 and 2 years.

Mr. WOHLFORTH. At this time we want to finish up and close the record on these French maturities, coming into 1919, and, Mr. Rathbone, you have already covered some of the material in your memorandum regarding the French maturities. So that we will submit some of the documents here in order to clarify certain of your statements.

Three loans to the French had their maturities in 1919—American Foreign Securities, the 5½-percent loan due April 1, 1919, and the Three Cities Loan, loaned to the cities of Paris, Bordeaux, and Lyons, on March 15, 1919.

In order to show that there was collateral under these loans, I will offer for the record a memorandum of obligations outstanding March 18, 1918, of the Allied Governments payable in the United States. That shows French Treasury securities of $50,000,000 and neutral securities of $10,000,000 under the industrial credits, and under the two other large loans of $100,000,000 each, that there is $120,000,000 of collateral under each of those $100,000,000 loans, part of which was American collateral.

(The document referred to was marked "Exhibit No. 2892" and is included in the appendix on p. 9303.)

Mr. **Wohlforth.** You have already touched upon the condition of the dollar with respect to neutral currencies after our entrance into the war. In the document which you entered yesterday, entitled "Making War Loans to the Allies", on page 8 you say [reading]:

> The dollar was at a discount and generally at a very heavy discount, and the pound was at an even heavier discount than the dollar, as compared with currencies of various neutral countries—

And so forth.

Also in that connection I will offer for the record a letter from Tardieu to you, Mr. Leffingwell, dated April 18, 1918, in which substantially the same statement is made. I offer that for appropriate number.

(The document referred to was marked "Exhibit No. 2893", and is included in the appendix on p. 9304.)

Mr. **Wohlforth.** Under the agreement of March 11, 1918, as I understand it, the French were permitted to use United States funds to take care of some of their maturities. And in this letter, which I have just entered, Mr. Tardieu raised the point of making further allowances in that connection.

There is a letter here, dated April 25, 1918, from Mr. Leffingwell to Mr. Tardieu, showing in substance that that request was declined with a promise of further consideration. That letter is offered for the record.

(The document referred to was marked "Exhibit No. 2894", and is included in the appendix on p. 9305.)

Mr. **Wohlforth.** On the same day, April 25, 1918, you also wrote to Mr. Simon, concerning the securities under the American Foreign Securities Co. and the 2-year 5½-percent French loan, but nothing further seems to have been considered at that time.

Mr. **Leffingwell.** That is still March?

Mr. **Wohlforth.** That is April 25, 1918. I offer that letter for the record with appropriate number.

(The document referred to was marked "Exhibit No. 2895", and is included in the appendix on p. 9305.)

Mr. **Wohlforth.** Then we enter in its entirety the letter of June 9, 1918, of Clemenceau to the Secretary of the Treasury, describing the financial conditions of France. I think he says on page 2 that the financial plight of the French was due in part to the large franc advances which were being made to the American Expeditionary Forces, and he requests that a billion francs in gold would be made available to the Bank of France.

Mr. **Rathbone.** Was it one billion?

Mr. **Wohlforth.** Yes; I think it was.

Mr. **Rathbone.** Did he not say at the end that it should be in installments?

Mr. **Wohlforth.** Yes, sir.

Mr. **Rathbone.** It was the equivalent of 2,300,000,000 francs, as I recall the figure.

Mr. **Wohlforth.** Yes, sir; that is correct.

Mr. **Rathbone.** And then he said it could be done in installments, the equivalent of 1,000,000,000 francs at a time, which would be the first payment.

Mr. **Raushenbush.** You mean at a time?

Mr. **Wohlforth.** At a time.

(The document referred to was marked "Exhibit No. 2896", and is included in the appendix on p. 9305.)

Mr. **Wohlforth.** In reply the credit of $200,000,000 was offered, and that is contained in a letter from the Secretary of the Treasury to Clemenceau, dated July 3, 1918, of which I will enter a copy, including a draft of another letter.

First, I will enter the letter from Mr. Crosby, Acting Secretary of the Treasury, to the President at the White House; and then the draft of the letter from the Secretary of the Treasury to Mr. Clemenceau, which sets down substantially the same matter as you have outlined in your memorandum.

(The documents referred to were marked "Exhibits Nos. 2897 and 2898", and are included in the appendix on p. 9307.)

Mr. **Wohlforth.** I will next offer for the record the reply of the French officials, Mr. Klotz, I think, was then the Minister of Finance, having succeeded Mr. Ribot, and there are two things in this letter which might be mentioned. The French Minister of Finance says [reading]:

> Under these conditions the offer of $200,000,000 made a painful impression at the Ministry of Finance—

Further on he says—

> because I see in the present operation, in spite of its imperfection, the first step in a way in which the fairness of the Federal Government will induce them to follow us.

(The document referred to was marked "Exhibit No. 2899", and is included in the appendix on p. 9309.)

Mr. **Wohlforth.** Then these negotiations resulted in the establishment of the $200,000,000 credit granted by the United States Treasury to create the additional reserve for bank notes for the Bank of France.

On July 20, 1918, we find a cable from the French Minister of Finance to his representative in this country, which reads in part as follows [reading]:

> We note with pleasure the indications gathered by Mr. Simon from his conversation with Messrs. Crosby and Leffingwell regarding the willingness of the Treasury to open additional credits in our favor, for the purpose of paying off before maturing a part of our loans in the United States.
>
> Evidently this is a slightly different proposition from the one set forth by Mr. Clemenceau to Mr. McAdoo. However, the addition of a special credit sufficient to pay off our two secured loans (American Foreign Securities and loan of April 1917) to the credit of $200,000,000 which the Federal Government recently offered to us, would in fact make a total approximately equal to the counterpart of the francs transferred so far to the United States Army. On the other hand, the withdrawal of our collaterals could help us considerably to obtain new credits in neutral countries, such a result, although it would

not be as far-reaching as the measures suggested by Mr. Clemenceau, would be very interesting and would to a certain extent work for the protection of the franc, the same way as an increase of the metal reserve behind our currency.

(The document referred to was marked "Exhibit No. 2900" and is included in the appendix on p. 9310.)

Mr. **Wohlforth.** I will offer next a letter, the substance of which is that Mr. Leffingwell was willing to permit up to $50,000,000 worth of Treasury advances to France to be used for the purchase, before maturity, of outstanding notes of the two secured loans.

Mr. **Raushenbush.** Do you want to have that read, Mr. Leffingwell?

Mr. **Leffingwell.** I would like to get an impression of what it is.

Mr. **Raushenbush.** Put a copy before him, Mr. Wohlforth.

Mr. **Wohlforth** (handing copy of said document to the witness). This is a letter from Mr. Leffingwell, probably a draft of that letter, with a memorandum. That is intialed "A. R." And it says, "My dear Mr. de Billy." He was the financial commissioner of France in this country. That letter states [reading]:

> You will recollect the talk which Mr. Crosby and I had with Mr. Simon the early part of this month in relation to the situation in France presented to the attention of the Secretary of the Treasury by Mr. Clemenceau's message of ——. In the course of this conversation it was suggested that if the Secretary of the Treasury assented to the immediate use of some part of the United States advances to your Government for purchasing in the market or otherwise anticipating the maturity of some of the outstanding obligations of the French Government maturing during the year 1919 it might have a favorable effect upon the situation under discussion in relation to the outstanding notes of the Bank of France. While obviously retiring obligations of your Government payable in United States in advance of their due date would not affect the amount of the Bank of France notes outstanding nor the security held therefor, yet the psychological effect of such action upon the public ought to be favorable, and if the neutral securities held as collateral for such obligations were used in such a manner as to improve the position of the franc as against certain neutral currencies it should serve to maintain public confidence.
>
> I now understand from Mr. Simon's talk with Mr. Rathbone on the 20th instant that it is the opinion of your Government that an operation of this character would be advantageous. It seems to me that for the present at least our attention should be directed to the obligations in neutral securities, both because these are the next maturing obligations of your Government in this country and because there are pledged to secure the same securities of neutral countries. I think it would be wise to commence these operations by purchases of these obligations in the open market, and if these securities are now selling on the same basis of interest yield it ought to be possible to purchase considerable amounts thereof without advancing the quotations. You will, of course, appreciate that it is of some concern to the Treasury how rapidly funds are used for the purpose of retiring, by purchase or otherwise, the securities above mentioned, and I suggest that at the outset the operation be limited to the expenditure of not exceeding $50,000,000. When this money has been expended for the purpose I shall be pleased to confer with you as to the best method of continuing the proposed operation.

Mr. **Rathbone.** Was that letter sent, or was it a draft?

Mr. **Wohlforth.** That is what I would like to ask you. It appears to be a draft.

Mr. **Rathbone.** I cannot tell you.

Mr. **Leffingwell.** It appears from Mr. Rathbone's memorandum to be a suggestion of a letter that might be sent. I really do not remember at all.

Mr. **Rathbone**. Mr. Leffingwell was particularly concerned with it, and whether he would have the $50,000,000 available to let them take up the maturities at that time, or whether, from the standpoint of the Treasury, it would be better not to loan $50,000,000 then but to loan it some months later. From the standpoint of the neutral securities and the transactions of the Treasury with the foreign governments, it was better to let them anticipate the date of the maturities.

I did not pass on the question of whether Mr. Leffingwell would have the $50,000,000 which I wanted to spend.

(The document referred to was marked "Exhibit No. 2901" and is included in the appendix on p. 9310.)

Mr. **Wohlforth**. Apparently there was some conversation about it as will appear from a later exhibit. At this time I offer a letter of August 14, 1918, from W. G. McAdoo, Secretary of the Treasury, to Mr. Edward de Billy, French Deputy High Commissioner, which is offered without comment.

(The document referred to was marked "Exhibit No. 2902", and is included in the appendix on p. 9311.)

Mr. **Wohlforth**. Next there is offered for the record a document dated July 24, 1918, which is 2 days later than the date of the draft to which we have been referring, being from Mr. de Billy to Mr. Leffingwell, which states [reading]:

> Referring to the conversation which Mr. Simon and Mr. Bloch had with Mr. Rathbone this morning—

And so forth.

And then, further at the bottom of the first page, Mr. de Billy raises the interesting suggestion that:

> Another solution would be the substitution of United States Government securities for the collateral now securing the loans. In fact both these procedures could be used simultaneously to great advantage.

(The document referred to was marked "Exhibit No. 2903", and is included in the appendix on p. 9312.)

Mr. **Wohlforth**. The credit to the Bank of France seems to have been deferred, the completion of the negotiations, and the transaction next appears in what was probably a draft of a letter dated September 4, 1918, to be sent by the Secretary of the United States Treasury to the French representatives. I will enter that in the record.

(The document referred to was marked "Exhibit No. 2904", and is included in the appendix on p. 9312.)

Mr. **Wohlforth**. The only thing of note is that this apparent draft of a letter raises the amount from $50,000,000 to $200,000,000.

Mr. **Leffingwell**. Wait a minute. I wonder if that is right. Do you not think that that first draft, as Mr. Rathbone explained it—and, as I followed it, his explanation sounded right to me—contemplated merely a control over the expenditure of the credit to be established for meeting these maturities? As I understand Mr. Rathbone's explanation, which sounds perfectly clear, that draft of letter which he submitted to me, because of the fact that while he was in charge of the foreign loan bureau, I was in charge of the fiscal bureaus and was engaged in the task of raising the money—he submitted to me a draft of a letter which said:

> In connection with the suggestion for meeting these maturities, I do not want you to anticipate payments to more than $50,000,000 at the present time.

Do you see? It was a question not of the amount of the credit, because that was fixed by the amount of the maturities, but the willingness of the United States Treasury to permit certain of these maturities to be paid off ahead of time in order to get collateral to be made available in neutral countries.

Whereas for the purposes of the foreign-loan bureau, it was desirable to get as much out as fast as possible, for the purposes of the fiscal bureaus it might not be quite convenient to pay it out just as fast. I imagine that that is what it is. Is not that correct?

Mr. **Rathbone.** I should think so.

Mr. **Wohlforth.** That is substantially the point I wanted to make that, first, the amount under consideration was $50,000,000, and then later on, in September, it was raised to $200,000,000, so that all the collateral could be taken out from under the two loans.

Mr. **Leffingwell.** That was not really a question of the amount of the credit but merely a question of the rate of expenditure, and the amount unchanged was $200,000,000. Is not that so?

Mr. **Rathbone.** I think that is so. It seems to me that this is a draft of an intradepartmental memorandum, more than a letter sent.

In the second place, I would like to call your attention to the difference between establishing credits and advancing money. Of course, there were special instances, but speaking generally as to credits, the United States Treasury would say to a foreign government:

> We have established a credit in your favor of $200,000,000 or $500,000,000 to be availed of if and when the Secretary of the Treasury shall so determine.

In other words, it was a bookkeeping entry. The credit did not obligate the Secretary of the Treasury to advance a single dollar under it. That is speaking generally. That is not true with respect to the credit given to the French Government by the transfer to the Bank of France. That is what we called an effective credit, because we were obligated to make the advances, but generally in establishing a credit we were not obligated to advance a penny of it.

Mr. **Wohlforth.** It was only on that basis that you could make a loan?

Mr. **Rathbone.** The Secretary of the Treasury had to get the consent of the President to establish a credit, and after a credit was established, then the Secretary of the Treasury had full power under the law to make a full advance up to the amount of that credit, but he was not obligated to do it, and he did not agree with the foreign governments that he would advance the money. That was a subject of further application and determination. Some of the credits toward the end of the war which were established were canceled and withdrawn.

Mr. **Raushenbush.** Mr. Wohlforth, may I interject a question, addressed to Mr. Leffingwell?

Mr. **Wohlforth.** Yes, sir.

Mr. **Raushenbush.** Mr. Leffingwell, as I gathered that conversation, it seemed important in the Treasury at the time to keep up the standing of French credit in the neutral markets, as well as at home, in France?

Mr. **Leffingwell.** You are addressing that to me, and I would be glad to give you the best answer I can, but Mr. Rathbone can give you a better one.

Mr. **Raushenbush.** Very well.

Mr. **Leffingwell.** As a matter of fact, as I understand it, it was not a question of maintaining French credit. It was a question of maintaining the buying power of the Allied and associated governments in the neutral markets and not increasing the expenses of the conduct of the war, because some part of that expense must ultimately come back upon the United States Government. And the price that we had to pay for our purchases in Spain or Switzerland or continental European countries might often depend upon the rate of exchange for the French franc in those countries, because the French would be able to find means of financing purchases for the American Army, which purchases we would not be able to arrange. Therefore, it was a matter of very great concern to the United States Treasury, not because it hurt the credit of one of the Allies, but because it cost more money to allow a depreciation of the exchange to occur.

Mr. **Raushenbush.** If I changed that and said that we were then terribly interested in keeping the currency of our Allies from depreciating in the neutral markets, you would assent to that without question, would you not?

Mr. **Leffingwell.** Yes, sir; but for the reasons I indicated.

Mr. **Rathbone.** I was going to say that the franc and the dollar being kept on a comparatively steady basis, the increased value of the franc in neutral markets would necessarily mean an increase in the purchasing power of the dollar for those neutral securities.

Mr. **Wohlforth.** Continuing, the documents reveal that Mr. Crosby, although abroad at that time, was consulted about this proposed transaction of releasing the collateral under these two loans, and in a cable, dated September 10, 1918, for Rathbone, from Mr. Crosby, there were four conditions set down concerning this transaction. If I may just read them hurriedly, I would appreciate it [reading]:

> First, that the transaction will be understood to have no bearing upon or constitute a precedent for any discussion of the modification of March agreement such as French Treasury has recently urged upon us. Second, that arrangements shall be made by virtue of which a certain proportion of the collateral in question shall be sold to realize neutral currencies, and that some proportion of the neutral currencies thus realized shall be available of the United States at cost to the French Government. Third, that purchase before maturity from American citizens by French Government of its obligations with funds advanced by the United States Treasury shall be made through public announcement at a figure satisfactory to the Secretary of the Treasury. Fourth, that any sums advanced for the purpose shall be specifically understood to be repayable out of any current monthly surplus of dollars made available to the French Government through advance of francs to us over the French current monthly expenditures in the United States, and as fast as such surpluses may be accumulated consider that our interest in the matter lies chiefly in possible benefit from use of collateral.

The fourth item connects with the statement which you just made.

(The document referred to was marked "Exhibit No. 2905" and is included in the appendix on p. 9313.)

Mr. **Wohlforth.** Then we come next to a letter from Mr. Rathbone to Mr. Simon, dated September 13, 1918, and you write Mr. Simon substantially the same as Mr. Crosby suggested in his cable of September 10, laying down various conditions. However, the third condition was omitted from your letter to Mr. Simon. In other words, you omitted any provision for public announcement of the purchase of French obligations by funds advanced from the United States Treasury. I offer that letter for the record with appropriate number.

(The document referred to was marked "Exhibit No. 2906" and is included in the appendix on p. 9313.)

Mr. **Wohlforth.** It would seem that up until this point there was really no definite proposal which looked toward the release en bloc of the neutral securities or the substitution of the United States Treasury obligation for them.

Along late in September 1918 some negotiations leading to this object were begun with the Bankers Trust Co., which was the trustee of the collateral of the American Foreign Securities, and also negotiations were opened with the Central Union Trust Co., the trustee of the collateral on April 1, 1919, French maturity.

Remember on July 24 Mr. de Billy suggested the substitution of United States securities for the collateral then securing the loans but at that time it seems apparent that the consideration of the Treasury—that the Treasury should give its obligations of $200,000,000 to secure the French loans—was not exactly what Mr. de Billy intended.

From the documents we have had available, it is impossible to learn who took the initiative in proposing this use of the United States Treasury obligations to replace the French collateral under these two loans.

However, about September 26, 1918, the Bankers Trust Co. was approached by the United States Treasury with a proposal for a book credit of $100,000,000 in favor of the Bankers Trust Co., the idea being that with $100,000,000 of book credit given to the Bankers Trust Co., as trustee for the collateral, they could release all the neutral securities.

There are quite a few negotiations concerning this, and I will try to go over them as rapidly as possible.

Mr. **Raushenbush.** Mr. Wohlforth, do you want to question the witnesses about that particular matter at all?

Mr. **Wohlforth.** I think we will come to that in just a moment.

In the first instance, this idea of taking a $100,000,000 book credit of the United States Treasury in favor of the Bankers Trust Co. was not acceptable to the trust company. The collateral indenture of the loan set forth the terms under which a substitution could be made, and at the time that the collateral indenture was signed, August 1, 1916, the attitude of the Treasury as regards this book credit was probably not foreseen, and the provisions anticipating a possible replacement by collateral which, although equal to that replaced, would, nevertheless, be inferior to a United States Treasury obligation, did not apply to the situation.

Article III, section 2, of the collateral indenture[1] listed several conditions that had to be filled, if any of the pledged securities were to be released. That indenture is already in the record, and I just want to call attention to section 3, paragraph 2, that if any collateral was to be released under this American Foreign Securities loan—

> There shall be pledged under this indenture, and be substituted for the pledged securities released as aforesaid, other securities of which each shall be such obligation of the Government of one of the following countries, viz: Denmark, Norway, Sweden, Holland, Switzerland, Spain, or Egypt, and which substituted securities in the aggregate shall be of value equal to or greater than the value of the released pledged securities.

Article 3, section 3, paragraph 3, states [reading]:

> That the aggregate value of all such obligations of any one of the governments mentioned in subdivision (2) of this section—

Being the governments that I just read off—

> or of any other issue of securities, shall not be increased by such substitution to an amount which at any time shall exceed $22,680,000.

I read that merely to make the point that the substitution under this collateral indenture of the American Foreign Securities was definitely limited with the conditions which we have outlined here.

A $100,000.000 book credit of the United States Treasury would not be an obligation of one of the enumerated governments, and it would be of less value than the securities released, because the securities were $120,000,000.

Mr. **Rathbone.** An obligation of the United States Government, at least at that time, to pay $100,000,000 was worth $100,000,000 at any time, under any conditions.

Mr. **Wohlforth.** The Bankers Trust Co. did not think so.

Mr. **Raushenbush.** Was it worth $120,000,000?

Mr. **Rathbone.** I beg your pardon?

Mr. **Raushenbush.** The question seems to me to be, Was it worth $120,000,000?

Mr. **Whitney.** Brown Bros. and ourselves had the right to change that under the indenture.

Mr. **Rathbone.** Whether they changed it or not, what difference does it make? There were certain securities put up to guarantee the payment of the obligation. I have forgotten them. If the United States said, "We will give you the money to pay those obligations", what interest had anyone in the collateral, if the United States Government obligation was good, as it was good, and if they said they would put it up.

Mr. **Wohlforth.** There is an interest, Mr. Raushenbush, because the American Foreign Securities Co. loaned money to the French Government at, I think, 7¼ percent, and the French Government charged interest on the face of the loan at 5 percent. So that there was 2¼ percent that the American Foreign Securities Co. would receive as their compensation, I think it was, for making the loan. And if you switch this collateral and put United States Treasury obligations under it, and when the loan comes due cash that obligation, obviously some of the profit coming to the American Foreign Securities Co. would be paid out of the United States Treasury.

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[1] Previously entered as "Exhibit No. 2702", see Hearings, Part XXVIII, p. 8642.

Mr. RATHBONE. We were only paying, were we not, the obligations held by the American people?

Mr. WOHLFORTH. Yes; but there was a difference there.

Mr. RATHBONE. Not as far as the American people were concerned, not as far as the obligations outstanding in the hands of the people were concerned.

Mr. WOHLFORTH. I think if we go along here, our only desire being to make a complete record, that we will see from this transaction that the United States Treasury did pay some of this profit when that certificate of indebtedness was cashed.

Mr. RATHBONE. Go ahead.

Mr. WOHLFORTH. That is really our only interest. There is nothing else in it except to get a complete record made.

Mr. RATHBONE. You have got the entire agreements as they were entered into, irrespective of the various steps and negotiations with regard to them, and the letter from the Treasury to the French Government in regard to the same. The agreement was made between the French Government and the Bankers Trust Co. There was a letter from the Treasury to the French Government, to which a copy of that agreement was attached, and the understandings of the American Treasury in regard to that are set forth fully in the letter.

Mr. WHITNEY. Mr. Wohlforth, do you think, in clarification of the question, since you have read but a very small portion of the pledge agreement, do you not think it would be well to put in the record the whole pledge agreement, and also the agreement between the French Government and American Securities? You talk about profit and a loan. A loan by a company to the French Government is a different matter. Do you not think you should put in the whole record? All this substitution was subject to the approval of Messrs. Brown Bros. and ourselves, and we could change these terms.

Mr. WOHLFORTH. I understand that the whole indenture has been previously entered in the record.[1]

Mr. WHITNEY. Has it been entered?

The CHAIRMAN. It has been entered.

Mr. WHITNEY. Excuse me.

Mr. WOHLFORTH. It is all there.

Mr. LEFFINGWELL. Mr. Wohlforth, may I go back again? I do not want to bore you with the distinction I made in speaking with Mr. Raushenbush a little while ago, but when you say something about a profit having been paid by the United States Government, I suppose what you mean is that a profit was paid by the French Government out of the proceeds of the money loaned by the United States Government.

Mr. WOHLFORTH. Yes; probably I did not explain that.

Mr. LEFFINGWELL. I do not know what the transaction was, and I do not know that there was such a profit, but if there was one, it was surely not paid by the United States but may have been paid out of our loans.

Mr. WOHLFORTH. Going along, we come to a letter from White & Case to the Bankers Trust Co., of November 16, 1918, and those two departures from the terms of the indenture, which I mentioned before, and White & Case say in a memorandum attached to this letter—

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[1] See "Exhibit No. 2702", Hearings, Part XXVIII, appendix, p. 8642.

> That J. P. Morgan & Co. and Brown Brothers & Co. were unable to give their approval to the transaction, because at the time the indenture was delivered and the notes issued those firms filed with the Securities Co. a letter stating that they would not at any time approve the substitution of collaterals of less value than the value of the collaterals released thereby. The face value of the United States certificates of indebtedness and the aggregate face value of the securities to be released.

I would like to enter that.

(The document referred to was marked "Exhibit No. 2907" and is included in the appendix on p. 9314.)

Mr. **Olds.** Are you going to put in the subsequent opinion from White & Case?

Mr. **Wohlforth.** I think that is coming along. We will offer this for the record.

Mr. **Rathbone.** Did the Treasury have any knowledge of that letter?

Mr. **Wohlforth.** Of this letter? I could not say at this moment that they did.

Mr. **Rathbone.** Naturally they would not have, being a letter from the counsel of the Bankers Trust Co. to the Bankers Trust Co.

Mr. **Wohlforth.** James Brown, of Brown Brothers & Co., on November 13, 1918, wrote to Mr. Vermilye, who was the secretary of the American Foreign Securities Co. at that time, as I recall, and said [reading]:

> First, let me say that the transaction has my entire approval and that it is desirable to put it through—also that it is far safer for the noteholders than their present status—

I offer that document for the record.

(The document referred to was marked "Exhibit No. 2908", and is included in the appendix on p. 9315.)

Mr. **Wohlforth.** The counsel to the Bankers Trust Co. had advised the Bankers Trust Co. that the proposal of the Treasury was legally satisfactory; that with the proper formalities a $100,000,000 credit on the books of the United States Treasury would comply with the terms of the trust agreement.

That is contained in a document we have here. I do not have it before me, but I think it covers the point you made.

Mr. **Olds.** My firm approved the thing when it was done, and there is a letter at the Bankers Trust Co. which exists to that effect.

Mr. **Wohlforth.** I will come to that and get to that point. Counsel approved this transaction. The Bankers Trust Co. seemed to feel that they would be better secured if the Treasury's obligation was in the form of a negotiable certificate of indebtedness, and they insisted upon that, and there was some telephone conversation between Mr. Rathbone and Mr. Seward Prosser and Mr. Close of the Bankers Trust Co., and we have a record of that telephone conversation here, and in that document it says that Mr. Rathbone said to Mr. Prosser on September 26:

> Mr. Rathbone to Mr. Prosser: I am very much surprised to hear from Mr. Close, in view of our interview here and the advice of your own counsel, that the Trust Co. could question the protection of a credit on the books of the Treasury of the United States and that they want a Treasury certificate of indebtedness ——— and in view of the fact that they were absolutely pro-

tected in taking a book credit with the Treasury I think it is very extraordinary for them to take the position that they want a certificate of indebtedness; paricularly too in view of the fact that it is against the policy of this Department to put up United States obligations as collateral, I do not think we could handle the business that way.

Mr. Prosser further along says:

Why can't it be done in the way we want?

Mr. Rathbone says:

Because we are not willing to issue certificates of indebtedness and have them held as, security for other governments.

All of this document will go into the record, Mr. Rathbone, but further along you express surprise that the Bankers Trust Co. took such an attitude.

(The document referred to was marked "Exhibit No. 2909" and is included in the appendix on p. 9315.)

Mr. RATHBONE. Of course I cannot recollect just what was said in that conversation. How many years ago was it?

Mr. WOHLFORTH. September 26, 1918.

Mr. RATHBONE. Of which I made no record at the time.

Mr. WOHLFORTH. Somebody made a record.

Mr. RATHBONE. I do not know whether somebody made a record or not. I know I did not. It was a tempest in a teapot. I have a very vivid recollection of it. Mr. Leffingwell and I talked about the matter, and we both agreed that it was a mistake, if we could avoid it, to give a certificate of indebtedness, and that we would rather give a credit on the books of the Treasury for that amount.

I said to Mr. Leffingwell:

I do not believe the trust companies in New York will assent to that. I think they will require a certificate of indebtedness, but I will try it out and see what I can do with it.

I then saw Mr. Case and discussed the thing with him and got his O. K. on it, that they would take it.

I told Mr. Leffingwell, "We got that point over all right."

Then I was annoyed because the officers of the Bankers Trust Co. went back on their own counsel and said that they would require a certificate of indebtedness.

It did not make a particle of difference whether it was a credit on the books of the Treasury in an amount of $100,000,000 or whether they had a piece of paper, to show that it was an indebtedness. It meant that the United States Government was obligated to pay the $100,000,000, and they would have done it anyhow.

Mr. WOHLFORTH. I agree with you entirely, Mr. Rathbone. My interest is just in making the record complete here, because it might have had a different interest to the bank than to the Treasury.

Mr. RATHBONE. It just meant $100,000,000 going out, if that is the figure, in either way.

Mr. LEFFINGWELL. It would not make any difference to the bankers except the directors prefered a certificate of indebtedness instead of having it inscribed on the books of the Treasury.

Mr. RATHBONE. A piece of paper which they could hold.

Mr. WOHLFORTH. That is apparently what they got, because on October 14, 1918, there was drafted an indenture for the release of the securities, this to be agreed to by the French Government, the

Securities Co., and the Bankers Trust, and which provided for a certificate of indebtedness, non-negotiatble, but a certificate of indebtedness.

I will offer it complete for the record, being an indenture dated the 14th of October 1918, the sample of the certificate of indebtedness, and a letter to Mr. de Billy, probably a draft, unsigned, but they were all together in the source from which we secured this.

Mr. **Rathbone**. Have you not got a copy of the actual letter sent?

Mr. **Wohlforth**. I think that comes along in just a minute. Yes; here it is. A few days later, on October 19, 1918, the Secretary of the Treasury formally notified Mr. de Billy of the operation of the $100,000,000 credit to purchase the certificate of indebtedness, and the provision was made to give the United States Treasury an option to pay in any of the currencies for the collateral to be released. I will offer those two documents for the record.

(The documents referred to were marked "Exhibits Nos. 2910 and 2911" and are included in the appendix on pp. 9316 and 9319.)

Mr. **Wohlforth**. So while you say in your memorandum on the French security that the United States Treasury never obtained any rights of subrogation in respect to the securities pledged by the French Government, and so forth, there was some interest in the release of those securities, as shown here.

Mr. **Rathbone**. No right of subrogation of any kind obtained.

Mr. **Wohlforth**. But an interest.

Mr. **Rathbone**. No; not an interest.

Mr. **Wohlforth**. I will read from that letter [reading from "Exhibit No. 2911"]:

> All securities now held as collateral under the collateral indenture as and when released therefrom are to be used by the French Government in such manner as may be agreed upon between us as most advantageous in the common interest and on the understanding that the United States Treasury shall have an opportunity of sharing in the foreign currencies provided by the use of the neutral securities so released upon making payment for such foreign currencies so obtained by the United States Treasury in dollars equivalent at the then current rate of exchange of the foreign currencies thus made available to the United States Treasury; or, if such foreign currencies are obtained at a less cost by the French Government, then upon making payment in dollars equivalent at the then current rate of exchange to such cost.

I interpret that as the Treasury having some interest in the use of this collateral.

Mr. **Rathbone**. They had no interest in the securities whatever.

Mr. **Raushenbush**. An academic interest, you mean?

Mr. **Rathbone**. They had an understanding with the French Government, set forth in that letter. There was no agreement, such as the British made, to deliver the securities to the Treasurer of the United States as collateral for designated loans.

Mr. **Wohlforth**. Then I offer for the record a letter of November 6, 1918, from White & Case to the Bankers Trust Co., which gave their opinion on the Treasury proposal. That is the one to which you referred, and it just came along chronologically.

Mr. **Rathbone**. As I recall it, it was a proposal of the French Government, assented to by the Treasury.

Mr. **Wohlforth**. Yes, sir.

(The document referred to was marked "Exhibit No. 2912" and is included in the appendix on p. 9320.)

Mr. **Wohlforth.** Then I offer for the record a copy of the actual certificate of indebtedness in the amount of $81,050,800. I offer that for the record with appropriate number.

(The document referred to was marked "Exhibit No. 2913" and is included in the appendix on p. 9323.)

Mr. **Wohlforth.** Then on November 15, 1918, Mr. Prosser, of the Bankers Trust Co., wrote a letter, or, rather, Mr. Bloch, of the French Finance Mission, wrote to Mr. Prosser on November 15, 1918, that the board of directors of the Bankers Trust Co. made objection to the operation as contemplated "on the ground that according to the terms of the pledge, it is necessary, in order to release the securities constituting the collateral, to substitute securities of an equal value."

I will offer that for the record. The difficulty was overcome.

(The document referred to was marked "Exhibit No. 2914" and is included in the appendix on p. 9323.)

Mr. **Wohlforth.** Part of that is in a memorandum already entered in the record, and then there is a letter dated January 29, 1919, from J. P. Morgan & Co. and Brown Bros. & Co. to the Bankers Trust Co., as trustee under the collateral indenture, with the American Foreign Securities. That was the date, apparently, when the deal was finally consummated.

I also offer for the record a document——

Mr. **Wardwell.** Is that consenting to the transaction?

Mr. **Wohlforth.** It says [reading]:

> The undersigned hereby approve of the release and substitution of securities called for in the accompanying request of American Foreign Securities Co. * * *.

That is the final letter.

(The document referred to was marked "Exhibit No. 2915" and is included in the appendix on p. 9324.)

Mr. **Wohlforth.** Then there is a document, I think from the Bankers Trust Co., dated January 28, 1919, which sets down in general the whole transaction. It is entitled "Statement by Mr. Anderson." I imagine that is Mr. Anderson of J. P. Morgan & Co.

Mr. **Whitney.** Let me look at it.

Mr. **Wohlforth.** It just goes through the various securities.

I offer for the record the list of securities under the American Foreign Securities Co., as secured from the files of the trust company which was trustee under the collateral indenture.

(The two documents referred to were marked "Exhibits Nos. 2916 and 2917" and are included in the appendix on pp. 9325 and 9326.)

The **Chairman.** The committee will be in recess until 1:30 o'clock.

(Thereupon, at 12:10 p. m., a recess was taken until 1:30 p. m. of the same day.)

AFTER RECESS

(The hearing was resumed at 1:30 p. m., pursuant to recess.)

The **Chairman.** The committee will be in order.

Please proceed, Mr. Wohlforth.

TESTIMONY OF THOMAS W. LAMONT, GEORGE WHITNEY, R. C. LEFFINGWELL, AND ALBERT RATHBONE—Resumed

Mr. WOHLFORTH. In order to complete the matters we were discussing this morning in regard to the American Foreign Securities Co.'s collateral, I want to offer for the record a letter dated July 31, 1919, from the vice president of the Bankers Trust Co. to Mr. Bloch, of the French Financial Mission, showing that the bank had collected the principal amount of the United States of America certificate of indebtedness amounting to $79,405,800; and as provided by the agreement, they have reserved for the payment of all outstanding American Foreign Securities notes, $73,905,800; and for the payment of interest due August 1 on the above notes, $1,847,645; and the bank had handed its check to the American Foreign Securities Co. for the balance of $3,652,355. Attached to that document is a memorandum which will also be offered.

(The documents referred to were marked "Exhibit No. 2918" and is included in the appendix on p. 9328.)

Mr. WOHLFORTH. In other words, the obligation of the French Government to the American Foreign Securities Co. was greater than the obligation of the American Foreign Securities Co. to its noteholders; and the United States Treasury was, in effect, providing funds so that the American Foreign Securities Co. would receive this $3,652,000.

Mr. RATHBONE. Hold on a minute. The Treasury was complying with their obligations to France under the March agreement.

Mr. WOHLFORTH. That is correct.

Mr. WHITNEY. And France was fulfilling its obligation to the American Foreign Securities Co.

Mr. WOHLFORTH. That is right. The American Foreign Securities Co. received the difference of the $3,600,000 from the bank, which was the trustee under the collateral indenture.

To show how the interest was handled, I will offer a letter without comment, from Mr. Verge, of the French Financial Commission, to Mr. Rathbone, dated August 7, 1919, showing that the interest was paid to the Treasury.

(The document referred to was marked "Exhibit No. 2919" and is included in the appendix on p. 9329.)

Mr. WOHLFORTH. Going along rather rapidly here, there is a group of documents I want to offer, the substance of which deals with the announcing of the substitution of the certificate of indebtedness, and various correspondence between the American Foreign Securities Co. and the New York Stock Exchange. I do not think that any comment on it is needed. I will simply offer it for the record.

(The documents referred to were marked "Exhibits Nos. 2920 to 2927", inclusive, and are included in the appendix on pp. 9329 to 9332.)

Mr. WOHLFORTH. When the April 1, 1919, maturity came due, there do not seem to be so many negotiations in securing the release of this particular collateral.

I will offer for the record a letter dated September 25, 1918, from Mr. Rathbone to Mr. Perry, introducing Mr. Bloch.

(The document referred to was marked "Exhibit No. 2928" and is included in the appendix on p. 9332.)

Mr. **Wohlforth.** I will offer a letter of October 7, 1918, from Mr. Bloch to Mr. Wallace, president of the Central Union Trust Co., simply outlining the various conferences and negotiations which led up to a similar plan with this loan; that is to say, there was a plan that consisted of the substitution for the present collateral of an obligation of the United States Treasury as in the other instance with the American Foreign Securities Co.

(The document referred to was marked "Exhibit No. 2929" and is included in the appendix on p. 9333.)

Mr. **Wohlforth.** I will also offer a letter to show that $20,000,000 of notes of this April 1 loan was purchased in the market. It is a cable from Mr. Rathbone to Mr. Crosby under date of October 25, 1918. That is the only point I want to make there.

(The document referred to was marked "Exhibit No. 2930" and is included in the appendix on p. 9333.)

Mr. **Wohlforth.** I offer another letter showing a special credit of $80,000,000 on terms similar to the credit for securing the American Foreign Securities loan that was opened by the United States Treasury. It is a letter from Mr. de Billy to Mr. McAdoo, under date of November 12, 1918.

(The document referred to was marked "Exhibit No. 2931" and is included in the appendix on p. 9334.)

Mr. **Rathbone.** You are going to put in the agreement to show just what was done?

Mr. **Wohlforth.** Yes.

I offer a letter of December 7, 1918, showing that $28,011,000 of the notes were bought in by the Treasury funds.

(The document referred to was marked "Exhibit No. 2932" and is included in the appendix on p. 9335.)

Mr. **Wohlforth.** I offer a letter further confirming that same transaction dated December 5, 1918.

(The document referred to was marked "Exhibit No. 2933" and is included in the appendix on p. 9335.)

Mr. **Wohlforth.** I now offer a series of documents showing how the Treasury certificate was reduced to seventy-one million-and-odd dollars:

Letter of December 10, 1918, from Mr. Rathbone to Mr. de Billy.

The certificate of indebtedness dated December 10, 1918.

Letter dated December 10, 1918, also on the same subject, explaining the transaction, from Mr. Rathbone to Mr. de Billy.

(The documents referred to were marked "Exhibits Nos. 2934, 2935, and 2936", respectively, and are included in the appendix on pp. 9335 and 9336.)

Mr. **Rathbone.** That was really setting forth the terms, was it not, under which we were doing this? It was not explaining it; it was laying down the law, as it were.

Mr. **Wohlforth.** It explains the whole transaction here.

So the record will be complete on this one transaction, we want to follow out the release of the $200,000,000 securities to the French in 1918 and 1919.

I offer a letter of January 8, 1919, from the Central Union Trust Co. to the French Finance Commission. It is offered without comment for appropriate number.

(The document referred to was marked "Exhibit No. 2937", and is included in the appendix on p. 9337.)

Mr. **Wohlforth.** I offer for the record a letter of March 15, 1919, from the vice president of the Central Hanover Bank & Trust Co.—the name of the bank was changed at that time.

Mr. **Rathbone.** It is the same institution. It was a consolidation on merger.

Mr. **Wohlforth.** It is the same bank. They were still trustees of the collateral.

(The document referred to was marked "Exhibit No. 2938", and is included in the appendix on p. 9338.)

Mr. **Wohlforth.** I offer for the record a letter from Mr. Bloch to Mr. Rathbone, dated April 3, 1919, showing how many of the bonds were converted. The French 2-year notes, I think, were converted into 20-year bonds and 588,000 of those had been so converted.

(The document referred to was marked "Exhibit No. 2939", and is included in the appendix on p. 9338.)

Mr. **Rathbone.** Of course, the Treasury did not furnish any money to pay these notes that were converted into long-term obligations.

Mr. **Wohlforth.** No; that is right.

I will offer for the record a memorandum of December 12, 1918, signed "A. R." I guess that is Mr. Rathbone. It is for Strauss, who was in the Treasury at that time. The substance of the letter is that the release of the neutral collateral securing these two loans was the chief factor in the Treasury's willingness to substitute its certificate for them.

(The document referred to was marked "Exhibit No. 2940", and is included in the appendix at p. 9338.)

Mr. **Wohlforth.** If I can just mention this, you say to Mr. Strauss [reading from "Exhibit No. 2940"]:

> Through an arrangement made with the Secretary of the Treasury there has been released from the lien thereon of the instrument of pledge securing the French Government notes which will mature April 1 next, a large amount of neutral securities. Under an arrangement with the French Government these securities are to be used to rectify exchanges in such a manner as may be agreed upon. I shall be glad to have your views as to the best method to use the securities in question to attain that purpose.

I think we discussed that this morning, that the idea of releasing these securities was to rectify neutral and other exchanges in favor of the Allied Governments.

Mr. **Rathbone.** In advance of the maturity, although that memorandum does not say that was the principal reason that we did it.

Mr. **Wohlforth.** I offer for the record a letter dated December 12, 1918, from Mr. Rathbone to Mr. Simon, of the French High Commission. I think the substance of this letter is that you are asking Mr. Simon his views on the best way to use the neutral securities for the common good. I just offer that for the record.

(The document referred to was marked "Exhibit No. 2941", and is included in the appendix on p. 9339.)

Mr. **Wohlforth.** You have already stated this morning, Mr. Rathbone, that the dollar in relation to neutral exchanges improved somewhat in the last quarter of 1918, and that neither the United States nor these neutral countries was much less in parity than in September of 1918, when the negotiations for the release of the collateral were made.

In a memorandum of December 13, 1918, Mr. Strauss replies to you, and he says, in the last paragraph:

> As to the best method of using the securities in question to rectify exchanges, I take it that the French are not willing that these securities should be sold for their account for that purpose. * * * I do not think that we require them as collateral, for under present conditions we could, I think, borrow on our unsecured obligations in any market, or where the Treasury promotes the transactions through the banks, Treasury certificates would be accepted as security, as in the *Spanish case.* I will discuss this matter with you at your convenience and, in any event, I think we might discuss it with Kent next week.

(The document referred to was marked "Exhibit No. 2942", and is included in the appendix on p. 9339.)

Mr. RATHBONE. Did you say that our needs were less then for neutral foreign exchange than at some other time?

Mr. WOHLFORTH. No; but the relation of the dollar to foreign exchange had improved somewhat as compared with earlier in 1918.

Mr. RATHBONE. I remember that about that time, probably a little before this, General Lord, from the Army, came in and told me that the American Army was free and were intending in any market in the world at any time they thought right to go in and spend as much money there as they pleased.

Mr. WOHLFORTH. I offer for the record two letters dealing with the request to turn the securities back to France to be pledged or sold in a neutral market, and with the acquiescence of the United States Treasury in such a request.

The first letter was of January 7, 1919, from Mr. Simon to Mr. Rathbone, and the second letter is apparently your answer. I am offering them both for appropriate number.

(The documents referred to were marked "Exhibits Nos. 2943 and 2944", respectively, and are included in the appendix on pp. 9339 and 9340.)

Mr. WOHLFORTH. I read from the answer of Mr. Rathbone to Mr. Simon on January 11, 1919 [reading from "Exhibit No. 2944"]:

> This department has no objection to the shipment to France of the neutral securities mentioned in your letter and in the order therein set forth, on the understanding that as rapidly as possible the same will be sold by your Government or used as collateral to secure loans to your Government,

and so on.

I will offer for the record without comment a letter of January 21, 1919, from Mr. de Saint Phalle of the French Finance Commission to the Central Union Trust Co., and also another letter from the same gentleman on March 11, 1919, which shows that the securities under the April 1 maturity were accordingly sent abroad.

(The documents referred to were marked "Exhibits Nos. 2945 and 2946", respectively, and are included in the appendix on p. 9341.)

Mr. WOHLFORTH. I will also offer a memorandum from the files of the Bankers Trust Co. showing that the securities which were released under the American Foreign Securities Loan were also sent abroad.

(The document referred to was marked "Exhibit No. 2947", and is included in the appendix on p. 9341.)

Mr. **Wohlforth**. I have just a few more letters here, to show that the French Ministry of Finance had several plans for the disposition of these securities so released, and in several instances approval was requested from the United States Treasury for such disposition before the disposition was made.

The letters are from Mr. de Billy to Mr. Rathbone, dated April 2, 1919; a letter from Mr. Bloch to Mr. Rathbone, dated May 28, 1919, with a telegram attached, from Paris; a letter of July 15, 1919, from Mr. Bloch to Mr. Rathbone, also with a telegram attached; similarly a letter from Mr. Rathbone to Mr. Bloch on July 16, 1919, merely showing the disposition of the securities.

(The documents referred to were marked "Exhibits Nos. 2948 to 2951", inclusive, and are included in the appendix on pp. 9342 to 9344.)

Mr. **Wohlforth**. I have no other point to make, Mr. Chairman, other than that I think the record is clear that the securities were released by the United States Treasury——

Mr. **Rathbone**. Not released by the United States Treasury.

Mr. **Wohlforth**. I mean, the United States Treasury advanced money to the French in the form of certificates of indebtedness, which were used in connection with these two loans to permit the release of the securities by using these United States Treasury certificates as collateral in the substitution, and that the securities were returned to the French Government.

Mr. **Rathbone**. The release by the trustees under the indenture.

The **Chairman**. Let the Chair leave the advice at this time that before the day is over, and when the Committee has completed making a matter of record such papers as it believes pertinent, if witnesses or others feel that there are any evidences being left out of the record which are pertinent, the Committee will want its attention called to that fact, and opportunity will be afforded to make those papers or evidences a part of the record.

Mr. **Leffingwell**. Senator, I appreciate that courtesy. I wonder whether in case of the memorandum I have already handed you you would receive it now, so that I might refer to it in the course of the afternoon's questioning.

The **Chairman**. Frankly, I have not had the opportunity to look at that myself.

Mr. **Brown**. I have read the bulk of that, Senator. I see no objection to its introduction.

The **Chairman**. The staff sees no objection. I am sure the Chair has no objection to it being received for the record at this time.

Mr. **Leffingwell**. I appreciate your courtesy, sir.

The **Chairman**. That is a memorandum about the $400,000,000 demand loan, subrogation, and British and French public maturities. That has been offered for the record.

Mr. **Leffingwell**. That is entirely from the Treasury point of view.

(The document referred to was marked "Exhibit No. 2952" and is included in the appendix on p. 9344.)

Mr. **Rathbone**. May I say one thing, Senator?

The **Chairman**. Yes.

Mr. **Rathbone**. Of course, Mr. Leffingwell and I were connected with the Treasury a long time ago. We have not at our disposal the Treasury records. There have been a great many documents introduced in evidence during the short time I have been here, communications from various individuals or representatives of various governments which stated or tried to indicate what the Treasury's views were as to certain questions.

It is absolutely impossible for either Mr. Leffingwell or me, with such a general permission, to put anything in that contradicts them or to make records available to this Committee, because we do not have them; the Treasury records which might show whether the ideas of these individuals and representatives as to what the Treasury's attitude was were correct or incorrect are not controlled by us.

The CHAIRMAN. The Chair wishes to announce that there has been no purpose on the part of the Committee or its staff——

Mr. RATHBONE. I was not suggesting that for a moment, sir.

The CHAIRMAN. To avoid offering for the record all that we found that was pertinent to the question in hand.

Mr. RATHBONE. I quite understand that, but what I am trying to say is that Mr. Leffingwell and I cannot take up one by one these various communications from individuals not authorized to speak for the Treasury and say that what they say is correct as to the Treasury's views.

It is an impossibility for us to do that.

The CHAIRMAN. Oh, of course, that would be an impossible thing for you to do at this stage.

Mr. BROWN. I think, Mr. Rathbone, the Chair's offer was more particularly directed to certain records of J. P. Morgan & Co., that it might be desirable to add to the record, rather than any question of Treasury records.

Mr. RATHBONE. Not only Morgan records but the French High Commissioner or anybody else.

Mr. LEFFINGWELL. I understand that the Chair is intending to put in the Treasury records, so far as they have been accessible?

The CHAIRMAN. So far as we find it possible to do.

Mr. LEFFINGWELL. That really covers your point, does it not?

Mr. RATHBONE. Yes.

The CHAIRMAN. The Morgan people have had entered in a volume, which has been before us here during all of these weeks, a great many communications. If you feel that any parts of those that have not already been entered by the Committee should be entered, some time during the day, please confer with some member of the staff.

Mr. LAMONT. Thank you.

The CHAIRMAN. Please indicate which of those papers you should like to have entered, and we shall see that that is done.

Mr. LAMONT. Thank you, Senator.

The CHAIRMAN. Mr. Brown.

SUPPORT OF STERLING EXCHANGE FROM UNITED STATES ADVANCES[1]

Mr. BROWN. The subject at the moment is the matter of the support of foreign exchange in the period from April 1917 to the end of the war, and concerns chiefly the support of sterling exchange, which was the most important of the three principal exchanges.

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[1] Certain industrial aspects of financial support to the Allies are illustrated by "Exhibits Nos. 3334 through 3361", Hearings, Part XXX; and "Exhibits Nos. 3531 through 3556", Hearings Part, XXXI. See also "Exhibits Nos. 3161 through 3166", Hearings, Part XXX; and "Exhibit No. 4116", Hearings, Part XXXII.

I would like to recall at the outset, from "Exhibit No. 2646", which is already in the record,[1] the phrase of the Chancellor of the Exchequer, in which he declared that the maintenance of the sterling rate on New York had created a situation in which—his quotation is—"the nerve center of the Allies' financial system was as much in New York as in London."

Mr. Leffingwell. Mr. Brown, what was the date of this?

Mr. Brown. That is in July 1917, Mr. Leffingwell.

I recall further that from "Exhibit No. 2647",[2] which is in the record of about the same date, Sir Cecil Spring-Rice's declaration that the collapse of the sterling rate would destroy—his quotation is—"the basis of financial relations of all the Allies with the rest of the world would be removed."

Mr. Chairman, as we see the exchange situation, the general proposition would be something along the following line, that the British financial arrangements late in 1916 or 1917 over and above such dollar exchange as was created in the United States by imports and payment on capital account brought by the United States included the following:

The first would be British Government purchases in America and all purchases through the commercial agency account of J. P. Morgan & Co. were paid for directly in dollars raised either by loans, by gold, or by security sales.

That in the aggregate is correct, is it not, Mr. Lamont?

Mr. Whitney. Yes.

Mr. Lamont. Yes. Excuse me; I thought this related to the Treasury. Mr. Whitney has answered.

Mr. Brown. Second, that British purchases in America for other governments were also paid for largely in the same manner, though also by sterling bills.

Mr. Lamont. Yes.

Mr. Brown. Third, that British private commercial purchases in the United States were paid for by sterling bills altogether.

Mr. Lamont. In the ordinary routine commercial channels.

Mr. Brown. Yes.

Mr. Lamont. We assume they were.

Mr. Brown. Yes; presumably in large bulk, they must have been, at least.

Fourth, that the British Government and British private purchases in the neutral world and in such parts of the belligerent world as Japan, India, and the British Dominion were paid for in sterling.

Mr. Lamont. I cannot answer that.

Mr. Brown. Can you answer that from your experience as international bankers, not from your own knowledge from the wartime but just as a matter of general information?

Mr. Lamont. I should not dare answer that in the affirmative or in the negative, Mr. Brown, because London was for years, for generations, the great exchange market for the world. I should not venture to attempt to answer your specific question.

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[1] See Hearings, Part XXVIII, p. 8785.
[2] Ibid, p. 8789.

Mr. **Brown**. By that time—that is, the fall of 1916—the only market in the world where sterling could be sold in unlimited quantities was in New York. That is correct, is it not?

Mr. **Lamont**. Let Mr. Whitney comment on that.

Mr. **Whitney**. Going back to the previous question, Mr. Brown, for instance, Japan in cotton and copper, I do not know at that time, but there had been a lot of credits established. They might have done it by a dollar credit in Japan. It would not necessarily go to the sterling market. But we would have no knowledge of it.

Mr. **Brown**. Were not such dollar credits as were arranged with Japan the other way around; they were American dollars owned by the Japanese that were lent to the English by the Japanese?

Mr. **Whitney**. You asked about commercial purchases.

Mr. **Brown**. I asked about British purchases in these countries, if they were not in general paid for by sterling or sterling bills.

Mr. **Whitney**. I misunderstood your question. I just do not know the answer to that.

Mr. **Lamont**. Then you asked a second question.

Mr. **Brown**. Yes; if the New York market was not, in the fall of 1916, the only market in the world where sterling could be sold in unlimited quantities.

Mr. **Lamont**. I am not familiar enough, again, with the exchange market to answer that. America was rapidly changing, of course, from a debtor nation to a creditor nation, and the exchange market in New York in sterling, of course, was exceedingly active. But I am unable to answer your specific inquiry.

Mr. **Brown**. Was there anywhere else in the world at that time any such arrangement as J. P. Morgan & Co. had with the British Government to buy all the sterling at a fixed rate that came on the market?

Mr. **Lamont**. I have no idea. I do not know what the arrangements of the British Exchequer were anywhere, or the Bank of England.

Mr. **Brown**. So far as you knew, at that time, you knew of no other market in which sterling could be sold in unlimited quantities, did you? There may have been such, but you did not know of them?

Mr. **Lamont**. When you ask me that question—I do not want to seem to quibble about it—but you indicate I was giving thought to that question at that time, that I had rather canvassed it and had come to the conclusion you have come to. I had not.

Mr. **Brown**. But, Mr. Lamont, the exchange support in New York was, as we all know and as the record shows, a very serious matter. It took an enormous sum of money and was a constant worry. I should have imagined that if there were any such market support anywhere else in the world, you, as J. P. Morgan & Co., as the British fiscal agents in America, would perhaps have been aware of it. If they could have sold sterling against guilders in unlimited quantities the way they could sell it against dollars, I suppose you might have known of it.

Mr. **Lamont**. I am awfully sorry, Mr. Brown, but I am not an exchange expert. I had nothing to do with exchange transactions during the whole period of the war. I was in an entirely different phase of the work. I should have to get an exchange expert of 20 years ago to answer your question intelligently.

Mr. BROWN. At least, you knew of no other account similar to your own in New York, did you?

Mr. LAMONT. No; I knew of no other, but at the same time I did not give any thought to the question. If I had investigated at the time, I might have found another, but I do not know of any.

Mr. BROWN. Maybe Mr. Rathbone or Mr. Leffingwell can speak of the period after April. Was there any market, Mr. Rathbone, in which sterling could be sold in unlimited quantities except in New York?

Mr. RATHBONE. I do not believe there was any place they could sell sterling in unlimited quantities. That is a pretty big order.

Mr. BROWN. In undetermined quantities, let us say, quantities as to which you never knew how great they might become; an open market, in other words.

Mr. RATHBONE. I do not believe I could answer that question. I am not an exchange expert. As far as the policy of the Treasury was concerned with regard to exchange, I relied very largely on Mr. Albert Strauss, and to some extent on Mr. Kent, both of whom knew something about exchange, and I did not.

You are talking now about before we entered the war?

Mr. BROWN. Well, that point is immaterial. In "Exhibit No. 2646",[1] which is in the record, which is a memorandum by the British Chancellor of the Exchequer, appears the following:

> By the beginning of 1916 they—

the British Government—

> had to go a step further and come to the support of commercial exchange by making a blanket offer through their agents in New York to purchase sterling from all comers at a fixed minimum rate of $4.76 7/16.

Mr. LAMONT. Who said that?

Mr. BROWN. This is a memorandum from the British Chancellor of the Exchequer on July 22. It is already in the record.

That standing offer to purchase from all comers sounds like a market in which you can sell unlimited quantities so long as the offer is open, at least.

The point towards which this is leading is that as a result of this situation, not only did sterling purchases in America come over the New York exchange market, but equally sterling purchases from all over the world, from all the sellers of goods who desired any other currency than sterling, could at any rate, and in a large measure did, come over the New York market.

Is that correct, Mr. Lamont, by your recollection of that situation?

Mr. LAMONT. I am awfully sorry, Mr. Brown, to seem so stupid about that, but I had nothing to do with exchange and I cannot answer the question intelligently. Presumably a lot of sterling bills did come from all over the world and presumably when the British Government asked us to buy sterling, we bought sterling bills from all parts of the world, but to the extent or in the volume you indicate, I am sorry I cannot answer.

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[1] See Hearings, Part XXVIII, p. 8596.

The CHAIRMAN. Mr. Whitney, do you have any knowledge on that at all?

Mr. WHITNEY. I think there is a certain amount of confusion here. Let us suppose a man in the Argentine wanted to sell a sterling bill. Our instructions were to buy sterling, or, rather, sell dollars. The man that owned that sterling bill, whether it was a Japanese or an Argentine, or whoever he might be, got dollars. Obviously, if he wanted Argentine pesos, he had to use his dollars to buy pesos. We would not know anything about that. The only thing we would know was that there were certain offers of sterling bills on the market, and there was a standing offer to buy for our clients.

What that seller of exchange did with the dollars we paid him we have no means of knowing. I cannot conceive that we would have made any examination of the source of the selling, because, after all, our instructions were to buy sterling with dollars. What happened to the dollars thereafter we would have no means whatever of knowing.

Mr. BROWN. But the result of such a situation would be that the heavy buying of sterling at New York would tend to draw all the surplus sterling of the world to New York?

Mr. RATHBONE. If they wanted dollars.

Mr. WHITNEY. If they wanted dollars.

Mr. BROWN. Even if they wanted neutral currencies, Mr. Rathbone?

Mr. RATHBONE. If they wanted neutral currencies, it would be a question whether they could buy them better with sterling or with dollars. I am just guessing.

Mr. BROWN. If the only standing offer in unlimited quantities was at New York, if you would try to sell sterling for guilders in any great quantity, you would break the rate.

Mr. WHITNEY. You are not talking about selling guilders, you mean, buying guilders.

Mr. BROWN. Selling sterling for guilders; you would break the rate. If you sold your sterling over this unlimited market, in New York, and got your dollars, you could then buy your guilders with dollars.

Mr. WHITNEY. It would depend on whether there was an offering of guilders at that time.

Mr. BROWN. It would have a depressing rate on the dollar against the guilder?

Mr. WHITNEY. Quite.

Mr. BROWN. Did not that in fact occur even before we entered the war? The dollar was at a discount against a number of neutral currencies, was it not?

Mr. WHITNEY. You are sort of speculating on certain things. As Mr. Lamont has said, we have no knowledge whatever on that.

Mr. BROWN. I am asking from your general knowledge of the exchange situation, Mr. Whitney.

Mr. WHITNEY. Have you not knowledge that there were credits established by the British Government prior to the American entry into the war, both in the Paris and the neutral markets to the extent they could? Whether there was a larger market here for sterling and a larger market for the neutral currencies somewhere else I would not know. The neutrals did not want dollars. They wanted their own currencies. Whether there was a larger market here for guilders, for example, than there would have been for sterling in Holland, I would not know. We would have no possible means of knowing, as Mr. Lamont has said.

Mr. BROWN. Just as an academic question, Mr. Whitney, if the dollar declined against the guilder or any other currency at a time when there was a favorable balance of United States trade with that country, it would be presumably because of the drag of sterling, would it not?

Mr. WHITNEY. That would be a fairly good assumption. We were not handling the exchange market. All we were doing was buying sterling and selling dollars.

Mr. LEFFINGWELL. I cannot assert any competence in the field of exchange, and as Mr. Rathbone says, the foreign exchange problem was under the charge of the Federal Reserve Board, and particularly the man who became its vice governor, Albert Strauss, and also Mr. Kent, who had his headquarters in New York and managed it.

To a very large extent the support of the neutral exchange for the dollar was imposed upon the Treasury by our own Army expenditures, direct Army expenditures of the United States. For instance, we had the greatest possible difficulty in finding enough pesetas in Spain to meet the disbursements of our Army quartermasters. The shortage of shipping and the submarine peril made it extraordinarily important from the Army's point of view to buy whatever military supplies they could on the continent of Europe. Therefore, they bought freely and as freely as they chose in Spain or anywhere else on the continent of Europe, if they could get it there and they needed it. We had to get the assistance of France, and indeed of England, as I remember it, but certainly, of France, in the first instance to provide us with some pesetas. Later on we sent a special commission over to Spain with a view to obtaining pesetas for our own account.

We had the same problem in Switzerland, to a less degree, and an exchange arrangement was worked out with the Swiss Government. They were most cooperative, and they provided us with Swiss francs for our own needs.

In the Argentine we also found it necessary and desirable to make exchange arrangements, and we made such exchange arrangements against earmarked gold, as I remember it. So all over the world we made it a major business of the Treasury of the United States to find foreign currencies for our own use. That was in addition to and not instead of the general need of maintaining the buying power of the Allies and of the United States wherever military expenditures were being made for the common cause.

Mr. LAMONT. But I do not think, Mr. Brown, we must overlook the fact that London continued to be a great international market in exchange, war or no war, and the basis of that was, to a considerable measure, of course, the enormous overseas investments which the British people had other than their American investments, which they had sold to a considerable extent, a large extent back to America. But yet they were supposed still to have something like the equivalent of $15,000,000,000 of foreign investments, which was sort of a basis for operations.

Mr. **Brown**. I return again to just one more point on the mechanics of exchange.

When sterling was bought by the British Government through J. P. Morgan & Co., the sterling then belonged to the British Government?

Mr. **Lamont**. Yes.

Mr. **Brown**. After the United States entered the war this exchange support was furnished almost entirely by the United States advances, was it not?

Mr. **Leffingwell**. You mean in New York?

Mr. **Brown**. Yes; in New York.

Mr. **Leffingwell**. Of course, the British Empire was a great going concern, and its own main market probably continued to be the central market for the world, and what came to New York was whatever excess was unpurchased in London.

Mr. **Brown**. Whatever people held who did not want sterling, which had not been in some other way transferred to some other currency, would come over to New York, is that correct, Mr. Leffingwell?

Mr. **Leffingwell**. You will always find that any salable surplus moves to the best market and the best bid was in New York for any excess purchases. There was an enormous amount naturally being bought and sold in London, which never ceases to be, I suppose, the main market in volume for sterling.

Mr. **Brown**. I offer for the record—it does not need to be read—a telegram from Mr. Balfour dated August 3, 1917, which is printed in the Foreign Relations Supplement, merely stating that "at the present time we are supporting exchange only by means of dollars supplied by the United States Government."

(The document referred to was marked "Exhibit No. 2953", and is included in the appendix on p. 9352.)

Mr. **Brown**. I offer for the record a letter from Mr. Crosby to the Secretary of the Treasury, dated February 20, 1918, of which I would like to read only one part, concerning exchange operations in New York.

> Concerning exchange operations in New York, I am satisfied that the British Treasury will not be keen to diminish the amount of sterling thus handled. As a matter of fact, I have learned in conversation with Mr. Booth that, in his judgment, one of the advantages accruing to the British Government from the present system is this: that they obtain pounds at a cost of $4.76, and, assuming the future stability of their finances, these pounds will really be then worth $4.85 to the Government. We must constantly bear in mind that cotton, cereals, a large part of the oil, and other similar articles, are resold to their citizens, thus giving the British Government a large domestic revenue against their long-while obligations made to us. It amounts to a diminished need of interior borrowing in Great Britain, undoubtedly, the British Treasury is under great pressure in every direction, and its needs will doubtless increase, both internally and externally, as the war goes on. I am not now, therefore, criticizing their action, but am placing before you some of the facts which must tend, consciously and unconsciously, to dampen their activity in lines which may be desired by us.

(The document referred to was marked "Exhibit No. 2954" and is included in the appendix on p. 9353.)

Mr. **Brown**. We find, Mr. Chairman, from an analysis of the British Treasury account and demand loan no. 1 for a short period, from April 1, 1917, to April 1, 1919, purchases of sterling exchange in the New York market total, roughly, $1,710,000,000, and we find further from the Treasury account that in the period from January 1, 1918, to January 1, 1922, $545,000,000 of sterling was sold back. By "sold back" I mean merely sterling sold. It was dollar income of that amount from the sale of sterling.

I would like to offer for the record a "memorandum on relation of the United States to foreign exchange", addressed to Mr. Crosby from, I believe, Governor Harding, but I am not certain. It seems indicated in the Treasury files to have been submitted by Governor Harding, but that is not certain.

(The document referred to was marked "Exhibit No. 2955" and is included in the appendix on p. 9355.)

Mr. **Brown**. From this I would like to read one part:

> The direct problem with which the United States would have to deal should it undertake to maintain the pound sterling at $4.76 would be that of providing exchange at the specified rate in amount sufficient to provide means foi the settlement of balances of indebtedness growing out of the rest of the trade. It would also have to purchase all offerings at that or a lower rate. It should further be borne in mind that in undertaking this task the United States will also be undertaking to "stabilize" the exchange of those countries whose market is dependent on that of Great Britain, or which are in the habit of drawing sterling bills.

That, in effect, was what was done by that support, was it not, Mr. Rathbone? I mean, at that time. Later on the Treasury set up other machinery to deal with the problem, but at that period, when that support was undertaken, that was the result of that policy, was it not?

Mr. **Rathbone**. Yes; but I think you have to bear in mind what I called attention to in the article in Foreign Affairs, that because of the control exercised by the Allied Governments over exports and imports and over shipping, the great bulk of the purchases for which payment would be made over our exchange market would be for war materials and other commodities necessary for maintaining the civilian populations of Allied countries.

Mr. **Brown**. There is no question of that. We will come to that.

Mr. **Rathbone**. That cut it down. It was not the world-wide situation, it was the situation of exchange coming there, to be paid for commodities that were controlled by the Allied Governmets as much as they could to prevent the import into their countries of commodities not required for war purposes.

Mr. **Leffingwell**. Mr. Brown, there is an interesting thing, and you rather suggested it by your very pertinent comment about the fact that the Treasury had set up other mechanisms. I think it is perfectly relevant to mention the fact that that other mechanism resulted in this, that in the period of April 6 to December 31, 1917, exchange and cotton purchases were $1,615,000,000; in the next 6 months' period, from January 1, 1918, to June 30, 1918, they were reduced to $491,000,000; that in the next 6 months' period, from July 1, 1918, to November 30, 1918, they were reduced to $60,000,000.

I want to mention that because it supplemented your own very proper statement and showed how swiftly as the Treasury set up its controls under Mr. Rathbone and the Foreign Loans Bureau, the unidentified item of exchange was divided into its several component parts and converted into purchases of this and that, provable war necessities. Of course, it took time to do it.

Mr. Brown. Thank you, Mr. Leffingwell.

Mr. Leffingwell. Those figures, may I mention, are taken from the annual report of the Secretary of the Treasury for 1920, "Summary by Periods of Credits Established in Favor of Foreign Governments, and Advances Made to Them and Expenditures Reported by Them April 6, 1917, to November 1, 1920", "Exhibit No. 27", page 340.

(The document referred to was marked "Exhibit No. 2956" and is included in the appendix on p. 9360.)

Mr. Rathbone. May I also call attention to the fact that from January 1 to November 30, 1918, the United States Treasury advances for purposes of British exchange amounted to $296,000,000—I am just giving round figures—and during the same period, as shown by our trade returns, the exports of cotton to Great Britain amounted to $290,000,000.

Mr. Brown. There is no question, however, Mr. Leffingwell, that before this machinery was set up a tremendous sum was involved.

Mr. Leffingwell. $1,600,000,000 in the first 8 months.

Mr. Brown. Still reading from "Exhibit No. 2955", Mr. Harding's memorandum:

> The principal argument against maintaining the rate as specified is the cost involved in it and the general disarrangement of American foreign trade relations. Only very remote estimates can be given of the cost of conducting these operations, these depending essentially upon the extent to which interference with rates of exchange are actually carried into operation, not merely as regards trade with England, but with other countries as well.

Further along in the memorandum it says:

> Assuming that the United States had practically committed itself to financing all of the war munitions, the question would then arise whether the British Government would undertake to supply the accommodation needed in order to enable its people tc go on importing goods for private use, and, if not, whether the United States Government would be willing to increase its advances or loans in a corresponding degree. This would probably be the greatest advantage accruing from withdrawing the support now given to exchange—it would show clearly and unmistakably exactly where trade relations between the two countries now stand, and would make it possible to deal with them very much more intelligently than would otherwise be practicable. It would tend to cut off exports for unnecessary purposes which, in the present state of trade, would probably be a desirable thing to accomplish. It would also relieve the United States of a very large element of expense, as well as eliminate a troublesome financial operation whose management is almost certain to give rise in one way or another to criticism.

That just bears out, practically, Mr. Leffingwell, what you said. The only point was that it was approximately a year before the machinery was in operation.

Mr. Leffingwell. It seems to me that it is closer to 6 months, because you see how quickly the figures drop.

Mr. Brown. As I recall, they ran fairly heavily into the first quarter of 1918.

Mr. Leffingwell. The figure for the first half of 1918 has dropped a good deal. The first half of 1918 was $491,000,000 as against $1,615,000,000 for the period ending December 31, 1917, so the progress was pretty rapid.

Mr. **Brown**. That is the half year. My recollection is that the second quarter was very low, so that it is still fairly heavy in the first quarter.

Mr. **Leffingwell**. Oh, I see. We do not have that, then.

Mr **Brown**. A final remark from the Harding memorandum [reading from "Exhibit No 2955"]:

> The maintenance of the pound sterling at a stable parity, while letting our exchange trade take care of itself, tends, of course, to protect the British international financial market at the expenses of others, and to preserve in some measure the competitive power for the commercial contest which it is supposed will be inaugurated with the close of the war.

Mr. **Leffingwell**. What was the date of that letter, Mr. Brown?

Mr. **Brown**. This is dated June 1917, a day uncertain, but late in June of 1917.

I would like to offer for the record with no comment, a letter from Secretary McAdoo to President Wilson on this question, dated September 26, 1918, which gives a very good summary and review of the situation.

Mr. **Leffingwell**. Is that the one about the French problem?

Mr. **Brown**. No. It deals almost exclusively with the British.

(The document referred to was marked "Exhibit No. 2957" and is included in the appendix on p. 9361.)

Mr. **Brown**. I offer for the record a group of letters including the following:

A letter from the Treasury, unsigned, to Sir Hardman Lever, dated June 14, enclosing a request for advances.

A letter from Sir Hardman Lever to Mr. Crosby, dated June 15, 1917, in which a statement is made in connection with this exchange item.

A letter from Mr. Crosby to Sir Hardman Lever on June 21, 1917, repeating request for information in regard to this exchange item on the statement.

A letter of June 25, 1917, from Sir Hardman Lever to Mr. Crosby, in which there is only one relevant passage [reading from "Exhibit No. 2961"]:

> In regard to your third question, you are correct in assuming that substantially the whole of the exchange item represents purchases of materials for Great Britain, Italy, or France, and that the withdrawal of banking funds or sterling balances in London, to which I referred, occurred in the month of June.

indicating that it was a commercial rather than a banking transaction at that time.

(The documents referred to were marked "Exhibits Nos. 2958 to 2961", inclusive, and are included in the appendix on pp. 9366 and 9367.)

Mr. **Brown**. I offer for the record a letter from Paul M. Warburg to Mr. Leffingwell dated December 13, 1917, discussing the exchange, in which he says [reading]:

> What I am after is this—that we ought to have a direct connection with the purchase of goods and thereby better control the spending of the money. By adopting this method we shall be consulted first, while now the money is being spent first by outside purchasers, as above outlined, or by foreign governments, and we are being faced with the fact afterward when the harm has been done and when we have to buy bills of exchange indiscriminately without knowing

exactly what has brought about the accumulation of sterling exchange in our market.

Merely the point that you made, Mr. Leffingwell.

(The document referred to was marked "Exhibit No. 2962" and is included in the appendix on p. 9368.)

Mr. **Brown**. I offer for the record a letter from Mr. Crosby to President Wilson on June 26, 1917, which needs no comment.

(The document referred to was marked "Exhibit No. 2963", and is included in the appendix on p. 9369.)

Mr. **Leffingwell**. What was the subject?

Mr. **Brown**. Just reporting the exchange situation and the urgent demand from Great Britain for additional funds.

Mr. **Leffingwell**. Oh, yes.

Mr. **Brown**. I offer for the record a memorandum of a conference dated July 5, 1917, where there were present Lord Northcliffe and Sir Richard Crawford; Messrs. Tardieu, Simon, Casenave, and de Billy; Messrs. Crosby and Leffingwell.

(The document referred to was marked "Exhibit No. 2964", and is included in the appendix on p. 9369.)

Mr. **Brown**. This is a memorandum of a conference at the Treasury.

Mr. **Leffingwell**. Whose memorandum is it?

Mr. **Brown**. It is a memorandum of a conference at the Treasury. It has all these gentlemen there whose names are at the top.

Mr. **Leffingwell**. Is it signed? Do you know who made the memorandum?

Mr. **Brown**. No.

Mr. **Leffingwell**. And the date is——

Mr. **Brown**. July 5, 1917 [reading from "Exhibit No. 2964"]:

> In respect to the matter of British exchange, Mr. Crosby asked whether the British Government expected that the United States Government would be called upon for money to assist in the maintenance of the existing rate. Lord Northcliffe answered: "That is our business."

However, that did not remain Lord Northcliffe's business, did it?

Mr. **Leffingwell**. Lord Northcliffe evidently was not a diplomat.

Mr. **Lamont**. Nor an exchange expert.

Mr. **Leffingwell**. Nor a financier.

Mr. **Brown**. I call attention to the fact that exhibit 2646 only some 12 days later asked for some large sums for the support of exchange.

Mr. **Leffingwell**. Mr. Brown, I am sure you want to do justice to the British Government, and I am sure you will mention it now because of that little memorandum, and you will record the fact that even at that early date the British Government did respond in the utmost detail to the Treasury's inquiry about its needs and plans and accept the United States Treasury Department's determination. I have reference to those cables and telegrams that were exchanged between the Governments in which the British Government showed how great was the effort it was making in support not only of its own war effort but in the support of the requirement of the Allies, and gave detailed figures to Mr. Crosby. Those have all been published some years now by the State Department. I am sure you do not want to leave the impression that that curt little memorandum reflected the attitude of the British Government toward the American.

Mr. **Brown**. I do not want to leave that impression at all. If I could have a personal opinion from going over the document, it would be that nobody at the beginning realized quite what a complex and terrific problem the matter was to become. We were a little cavalier, perhaps, about it at the beginning.

I offer for the record an excerpt from a letter from Governor Harding to Governor Strong, dated August 10, 1917 [reading "Exhibit No. 2965"]:

> In regard to sterling exchange, I would say that I doubt more than ever, since my return to Washington, the feasibility of an extension of credit by the United States to Great Britain in an amount sufficient to insure the support of sterling under present trade arrangements. It seems to me that in order to secure the necessary legislation to make available the large credits which will be required, British purchases in this country should be drawn against very largely in dollars.

(The document referred to was marked "Exhibit No. 2965", and appears in full in the text.)

Mr. **Brown**. My impression of that is probably correct, is it not, that Governor Harding is referring to legislation not to change the terms under which money could be advanced, but to increase the amounts that would be required. Would you not conclude that?

Mr. **Leffingwell**. I am afraid I did not hear that. Will you repeat it?

Mr. **Brown**. It seems to me that in order to secure the necessary legislation to make available the large credits which would be required, new legislation——

Mr. **Leffingwell**. That is, credits abroad.

Mr. **Brown**. New legislation here; that presumably was for sums of money rather than for any legal restrictions against any such arrangement.

Mr. **Rathbone**. I should think so.

(Discussion off the record.)

Mr. **Brown**. As a lawyer, that would be the proper answer.

I offer for the record a letter from Governor Harding to Mr. McAdoo, dated August 14, 1917. It merely bears out what we have been saying, and at this point does not need to be read.

(The document referred to was marked "Exhibit No. 2966", and is included in the appendix on p. 9370.)

Mr. **Brown**. I offer a letter from Sir Richard Crawford to Mr. Crosby, dated August 16, 1917, in which he says that [reading from Exhibit No. 2967"]:

> With regard to cost of neutral exchange arbitraged over New York, I would like to point out that the amount involved under this head represents purchases of American commodities by neutral countries paid for out of dollar exchange against sterling credits created in London.

That is not quite the whole story. It was not only American purchases by neutrals; it might also be the conversion of sterling balances into neutral balances, might it not?

Mr. **Leffingwell**. I should think it might be different countries on the exchange.

(The document referred to was marked "Exhibit No. 2967" and included in the appendix on p. 9375.)

Mr. **Brown**. I offer another letter from Governor Harding to Secretary McAdoo, dated August 17, 1917, in which he says:

> I submit, therefore, that unless America takes advantage of the opportunity now afforded she is liable to incur the contempt of other nations. In my study of the international exchange conditions I am more and more impressed with the thought that exchange is now being regulated by governmental fiat more than it is by natural trade and economic conditions; and as other nations have taken an arbitrary stand in the matter, I ask you to consider whether the logic of the situation does not require that the United States should decide for itself its own attitude.

(The document referred to was marked "Exhibit No. 2968", and is included in the appendix on p. 9376.)

Mr. **Leffingwell**. That is also Governor Harding, is it not, Mr. Brown?

Mr. **Brown**. Yes.

Mr. **Leffingwell**. Were they then running the exchange control?

Mr. **Brown**. That, Mr. Leffingwell, I believe, was before the American exchange-control situation.

Mr. **Leffingwell**. Before the exchange control was set up by the Federal Reserve?

Mr. **Brown**. While support was still being given blindly.

I offer a letter from Mr. Warburg to Mr. Crosby, dated August 29, 1917, in which he has this to say [reading from "Exhibit No. 2969"]:

> In this connection, may I quote from a letter of a Dutch friend of mine, as follows:
>
> "From an advertisement in a Dutch paper I see that England does not renew 5-percent 1-year Treasury notes maturing in Holland in the course of July. This gives the impression that England uses your money, which cost her 3½ percent, to pay off her debts in neutral countries, to which she pays 5 percent. At the same time she upsets your foreign-exchange markets."

Do you think Mr. Warburg's Dutch friend had a correct idea of that?

Mr. **Leffingwell**. It was an interesting suggestion to make. I suppose it was just one more thing to pass along, but I am not at all sure he had——

Mr. **Brown**. If at first it might be true—that is, if there were any such performance of paying off neutral indebtedness at a higher interest rate—there was the further advantage that the British could borrow their interest in this country when it came due.

Mr. **Leffingwell**. Yes; but the British Government, I am pretty well satisfied, and I should think you probably were pretty well satisfied, Mr. Rathbone, were under sufficient pressure from the Treasury of the United States to hold their borrowings here down and to borrow abroad whatever they could, so that I do not believe they were ever very apt to take advantage of such a differential. Such a suggestion was a proper one to pass on, and I have no doubt it got ample consideration.

But, actually, the effect of the pressure upon the British Government to restrict borrowings here was very severe at every turn. All this correspondence, beginning away back before I had anything to do with the foreign affairs, all goes to show that Mr. McAdoo and Mr. Crosby were pressing the British Government to find finance in other countries.

But I think that Mr. Warburg's Dutch friend possibly is pointing out a possibility but not something that the British Government actually did, because actually the thing they did was to arrange loans in Switzerland and Holland, where they could make the loans. I am pretty sure they cooperated very freely and vigorously with the United States Treasury in the effort to reduce their demands upon the United States Treasury from the very earliest possible date.

Mr. Rathbone. You also ought to remember that the American Government loans bore interest at 3.5 percent only for a comparatively short period.

Mr. Brown. Oh, they always were able to borrow the interest on them, were they not?

Mr. Rathbone. Borrow the interest?

Mr. Brown. Yes.

Mr. Rathbone. That they paid to the Government?

Mr. Brown. To the Treasury.

Mr. Rathbone. Yes.

Mr. Leffingwell. Only for 18 months, not always.

Mr. Brown. I mean during the duration of the war, then for a while the interest was suspended.

Mr. Leffingwell. It was suspended for 3 years.

Mr. Rathbone. Two or three years, I think.

(The document referred to was marked "Exhibit No. 2969", and is included in the appendix on p. 9378.)

Mr. Brown. I offer for the record a letter from Governor Warburg to Secretary Lansing, dated August 29. It needs no comment.

(The document referred to was marked "Exhibit No. 2970", and is included in the appendix on p. 9378.)

Mr. Brown. In passing, I would like to point out that from July 1917 on, wheat was bought directly by dollars through the Treasury Account. Do you recall that?

Mr. Rathbone. The British Treasury Account?

Mr. Brown. Wheat was removed from the exchange in July 1917.

Mr. Rathbone. I just wanted to make sure it was British Treasury Account at that time.

Mr. Brown. But the exchange demands remained as heavy as ever for a long period after that.

I offer for the record a letter from Acting Secretary Crosby to President Wilson, dated October 24, 1917.

(The document referred to was marked "Exhibit No. 2971", and is included in the appendix on p. 9381.)

Mr. Brown (reading from "Exhibit No. 2971"):

> Lord Reading now repeats, with much urgency, the statements made in Bonar Law's despatches of several months ago to the effect that it is wholly impossible for the British Government to meet these bills in any other way at present than by borrowings made here. Just what proportion of those bills represent settlement of their balances in neutral countries, and what proportion represents settlements of certain purchases of American goods that are expressed still in sterling bills, we cannot now definitely determine. We must assume, however, that something like $60,000,000 per month will represent those outside purchases; the remainder of about $100,000,000 a month being spent in exchange operations covering purchases of cotton and other American supplies, in the same way in which cereal purchases have been made by the British Government in the past.

Everybody has testified that it was almost impossible to come to any real accurate analysis of this exchange item. Mr. Lamont, I believe, and Mr. Whitney both have had that to say. If we applied that rule of thumb, which is, of course, only a terrific rule of thumb, of 6 to 10, it would indicate that out of that total of $1,700,000,000 shown in the Treasury account, something over $600,000,000 of the exchange purchases represented financing in neutral markets of various kinds.

Mr. RATHBONE. I do not think so. I think as the control of the foreign governments over their imports was made more and more strict, that the purchases in the neutral markets for other than war purposes and the ordinary commercial dealings between the private individuals was necessarily dropping all the time.

Mr. BROWN. Yes; but, Mr. Rathbone, the control over those neutral markets coincides exactly with the terrific drop in the exchange purchases. The program of exchange purchases occurred in a period before any control was set up, so that in that sense, we apply this estimate and come to a rough figure of $600,000,000 applied on all kinds of financing by the British Government in neutral markets.

Mr. RATHBONE. I should not think that that proportion would apply after the private transactions were done away with, on account of the heavy control. I am not talking about amounts, but proportions.

Mr. BROWN. The proportions changed but the amounts under a different situation were small.

Mr. LEFFINGWELL. Did you not read an estimate of the figures here yesterday?

Mr. RATHBONE. I read it a moment ago.

Mr. BROWN. That was at a later period.

Mr. RATHBONE. That was at a later period.

Mr. BROWN. In any event, the strain thrown on the American exchange, either through sterling support or through the war channels, resulted in forcing the United States to embargo the export of gold, did it not?

Mr. LEFFINGWELL. I do not remember that—that there ever was a formal embargo. There was a control.

Mr. BROWN. There was an informal control.

Mr. LEFFINGWELL. Under the Federal Reserve Board, established very early. When was it?

Mr. BROWN. It is my impression that it was late in 1917, but inasmuch as it was informal, it is something on which there is nothing specific.

I offer for the record a letter from Mr. Crosby to Secretary McAdoo in regard to this question of inducing the Allied Governments to borrow in neutral markets for their own requirements instead of having them come over the New York exchange.

Mr. LAMONT. About what is the date of that, Mr. Brown?

Mr. BROWN. Excuse me; October 25, 1917.

(The document referred to was marked "Exhibit 2972" and is included in the appendix on p. 9381.)

Mr. BROWN. That letter reads in part as follows [reading]:

> I believe it is already quite familiar to you that a considerable portion of the loans made by this Government to the British Government and also to the French Government, acting more or less indirectly through the British

Government, have been used for the purpose of buying all French and English exchange offered on the New York market. Insofar as the amount thus purchased represents final balances of trade between France and England on the one hand and neutral countries on the other, the purchase of these bills is in fact a payment of the debts of English and French nationals or their Governments for the balances thus incurred. Until a recent date, it was possible for the sellers of these goods throughout the world to receive ultimate payment, if they so desired, by the shipment of gold from the United States. This movement, as has been indicated to you in the past, had attained very considerable proportions when the tentative embargo upon gold shipments was established by our Government.

Presumably, in Mr. Crosby's mind, to a large extent, by reason of that drain.

Mr. Leffingwell. I do not want to be too narrow in my interpretation of that point, but you mentioned it twice, and I should think that it was a mistake to isolate any one of the many financial burdens thrown upon the United States by the war and say, "This is what made it desirable to impose an embargo."

You see, the ultimate fact was—and this is rather significant, I think—the ultimate fact was that in the course of 2 years and a few months the United States Government was called upon, in the immense war effort which it made, to obtain $40,000,000,000. Now, if you find the foreign exchange of any country weak you may attribute it to several causes. One may be a distorted balance of international payments, another may be an unbalanced budget. Those perhaps may be taken to be the two major burdens on the foreign exchange of a country which lead to an export of gold.

You have only to look back over the post-war period, or even over the brief period of distress in many countries that began with the collapse of a bank in Austria in 1931, to see that not all weaknesses of currency in foreign exchange are attributable to the support of somebody else's exchange.

Mr. Brown. No.

Mr. Leffingwell. Or to an unbalanced international economy. Now, the real burden on the American exchange—and I think it is really important, because so much of our discussion here these last 2 days concentrates on what was, after all, one of the minor points of America's war effort—I thing it is really important for you to consider the fact that in those 2 years and a little more—I speak of this perhaps with some enthusiasm because as fiscal assistant secretary to the Secretary of the Treasury I was concerned primarily with the business of issuing the Liberty loans and the Treasury certificates and with the business of suggesting or advising with the Ways and Means Committee as to tax bills; and in the course of that very brief period there was thrown upon the economy of the country and upon the dollar exchange the burden of raising $40,000,000,000. Now, of that $40,000,000,000, $10,000,000,000 was foreign loans and of that $10,000,000,000, $650,000,000 were maturities.

Now, if you will consider the maturities to which we have devoted ourselves for 2 days——

Mr. Brown. We are not devoting our attention to that now.

Mr. Leffingwell (continuing). And realize that they were 1¾ percent of the money that the Treasury had to raise, 1¾ percent, and that the loans to foreign governments altogether were only 25 percent of the money that the Treasury had to raise, you will see why I think it is important to call your attention to the fact that the gold embargo and the great burden which the American people took up in consequence of entry into the war were only partly attributable to the necessity of supporting the Allies' exchange in this and that country as well as our own.

Now, as to supporting the Allies' exchange in this and that country, as well as our own, the real essential answer that the Treasury made—I cannot say at what date because I have not the records here—but the essential answer that the Treasury made was this:

> The Allies have been at war for 3 years. During those 3 years the British Government has set up an unparalleled mechanism for the purchase of supplies all over the world and financing those purchases for themselves and for their Allies in all the markets of the world.

And it was quite unthinkable that the Treasury of the United States should jeopardize the war by breaking down the machinery which the British Government, with its vast experience and vast resources, had taken 3 years to build up.

Now, to break it down in the most effective way, and to throw the whole burden of finance and of purchase and of organization of purchase throughout all the markets of the world, to break it down in the most effective way, would have been this: Stop the support of the sterling exchange—stop the support of the sterling exchange, because then the whole machine would have instantly come to a full stop and the United States Treasury would have had to buy at anybody's prices anywhere, because the dollar would have then been the only currency with which you could buy.

That, I think, is the true answer to all the questions which suggest themselves from your very interesting analysis of these problems.

Mr. Brown. I think that connects up with this, Mr. Leffingwell. I think the only point that should be added to that is, that the Treasury never dreamed of wrecking this before.

Mr. Leffingwell. Not for one moment.

Mr. Brown. But it did seem that it was a system which was fundamentally disadvantageous to the United States, and it set to work, as rapidly as it could, to substitute for it one which was more advantageous to the United States.

Mr. Leffingwell. It was fundamentally very advantageous, but a better system could be worked out in detail, and we worked out a better system in detail just as soon the Federal Reserve Board, the Federal Reserve agents, and the Foreign Loan Bureau could work out that system with the cooperation of the Allies.

But, fundamentally, it was extremely to the advantage of the United States to make sure that nothing interfered with the facility of purchasing and the facility of financing, which had been established by the British Government so effectively during those 3 years in which they preceded us in the war.

Mr. Brown. I offer for the record cable no. 44839, of November 19, 1917, from Morgan, Grenfell & Co., reading in part as follows:

> For your confidential information, Crosby is, as before, apprehensive lest the whole burden of Allied financing may prove too heavy for his resources and feels that any break in America would be so serious that it must at all hazards be prevented. In this I concur. Crosby fears lest the present exchange situation may prove the last straw, * * *.

I do not think anything else in that cable need to be read.

(The document referred to was marked "Exhibit No. 2973" and is included in the appendix on p. 9383.)

Mr. LAMONT. It is not important, Mr. Brown, but I would like to indicate that I was simply pointing out, for the information of my partners, views which had been expressed to me in London by Secretary Crosby, simply passing it on.

Mr. BROWN. I will offer the answer to that, cable no. 55812, of November 21, 1917, Mr. Lamont, which needs no comment.

(The document referred to was marked "Exhibit No. 2974" and is included in the appendix on p. 9384.)

Mr. BROWN. I will also offer cable no. 55811 for Mr. Lamont, of November 21, 1917, without comment.

(The document referred to was marked "Exhibit No. 2975" and is included in the appendix on p. 9384.)

Mr. BROWN. I might read this part of the cable [reading]:

> From your cable I judge that Crosby is in the same condition as when I saw him in Washington and what he needs is a foot warmer.

I offer cable no. 44975 of November 23, 1917, for Mr. Morgan.

(The document referred to was marked "Exhibit No. 2976" and is included in the appendix on p. 9385.)

Mr. BROWN. I might state that in this cable no. 55811 Mr. Morgan has this to say also [reading from "Exhibit No. 2975 "]:

> After all, if we could shorten the war by 10 days at an expense of even £100,000,000 or more, as a purely monetary transaction it would show a profit, and since we have Great Britain's obligation to repay that 100,000,000 later on, I do not think the United States should be too drastic in its requirements.

Mr. BROWN. I offer cable no. 44975, or I think I did offer it before.

Mr. LAMONT. That, of course, was just a subject of conversation between our offices in London and New York and had nothing to do with the Treasury transaction.

Mr. BROWN. No; it is just completing the discussion of the exchange situation.

I offer for the record a cable for Secretary McAdoo from Mr. Cravath in London, dated March 23, 1918, after the proposal had been made to remove some of the strain on the exchange by having more advances to France and Italy for their neutral purchases [reading from "Exhibit No. 2977"]:

> There is one point which seems to require additional elucidation: The advances of British Government to France and Italy which for some months have averaged about $118,000,000 a month exclusive of advances for interest have been used partly to pay British Government for commodities purchased in the British Empire, of purchases elsewhere by the British Government and resold, and partly to pay for purchases of France and Italy in neutral countries. The advances of the latter category have usually taken the form of sterling bills, which have helped swell the volume of sterling exchange which has come on the New York market.

(The document referred to was marked "Exhibit No. 2977" and is included in the appendix on p. 9385.)

Mr. BROWN. On that same subject I offer a cable of March 30, 1918, from Mr. Crosby to Secretary McAdoo, which states in part [reading from "Exhibit No. 2978"]:

> Referring Chancellor's long cable to Reading. While I believe in general that if dollars were made to France and Italy for payment of their purchases

> throughout world that there would be a diminution in dollar need of Great Britain, I cannot adopt view that French and Italian purchases in Great Britain should be covered by United States.

That was never intended, was it, Mr. Leffingwell, to mean that the needs of France and Italy, in England would be financed out of dollars?

Mr. LEFFINGWELL. It was never contemplated by the United States Treasury, Mr. Brown. That was a subject of long discussion.

Mr. RATHBONE. By the British Treasury; that we should finance in dollars the French and Italian purchases in Great Britain. Very serious requests were made of the United States Treasury to that effect.

Mr. BROWN. The Treasury never considered them?

Mr. RATHBONE. The Treasury never adopted that view.

(The document referred to was marked "Exhibit No. 2978" and is included in the appendix on p. 9386.)

Mr. LEFFINGWELL. It is a very interesting point, and I would like to add a footnote to what you said, that it has been a subject of discussion between the British and American Governments for a great many years, and you will recall in the Balfour note. The British always contended that the United States Government was adopting a method of financing the war which resulted in the British Government being obliged to go on lending to the other Allies, while the United States Government was lending to her. In other words, that was the basis of the theory of the conduit, which was the basis of the Balfour note, and a long series of discussions resulted from that. And Mr. Rathbone's article in Foreign Affairs[1] expounds the solutions which were found for the problem of readjustment of the basis of borrowing and lending between the countries.

Mr. BROWN. Further on in this cable it states [reading from Exhibit No. 2978"]:

> Besides powerful political reasons against this step—

that is paying for French and Italian expense in England and also to some extent in neutral countries—

> it is clear that diminution in dollar demands of Great Britain would correspond to increase of dollar credits to France and Italy, without effective check upon Allied purchases in neutral and Allied countries, all of which, unless controlled, might be increased so that demand for dollars to cover sterling offerings in New York could not be guaranteed to diminish in proportion to furnishing of direct dollar credits to Italy and France.

The net result of this situation was that from the beginning, we had, to some extent, at least, financed Allied purchases in neutral markets, whether we intended to or not, and when the exchange control was set up, we financed them by direct advances instead of through exchange, but we continued, as we had from the beginning, to finance them upon the neutral markets.

Mr. RATHBONE. France's and Italy's purchases, to some extent.

Mr. LEFFINGWELL. Not completely.

Mr. RATHBONE. Not completely.

Mr. LEFFINGWELL. There was a settlemet of accounts, as a result of which the British and American Governments agreed on a basis for financing French and Italian purchases in neutral markets. Is not that correct, Mr. Rathbone?

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[1] See "Exhibit No. 2781", appendix, p. 9207.

Mr. RATHBONE. An agreement was finally reached, and I think in my article it states it.

Mr. BROWN. The memorandum is May 28, 1918, I think, being a memorandum concerning foreign loans.

Mr. RATHBONE. May I ask whose memorandum that is?

Mr. BROWN. Lots of these Treasury memoranda are not signed and are in the files.

Mr. RATHBONE. They were probably interdepartmental communications, a suggestion from somebody to somebody else.

Mr. LEFFINGWELL. Intradepartmental, you mean.

Mr. RATHBONE. Yes, sir; intradepartmental.

Mr. BROWN. This was a fact and not a policy. The memorandum states [reading from "Exhibit No. 2979"]:

> Great Britain is now asking that the United States Treasury should hereafter make loans to France and Italy for their expenditures in neutral countries and their expenditures (except for interest on British debt, coal and maritime freights) in Great Britain and the British Empire, such loans to be in substitution for the British net monthly loans to France and Italy.

In other words, to do formally what had been done informally over the foreign exchange.

(The document referred to was marked "Exhibit No. 2979" and is included in the appendix on p. 9387.)

Mr. BROWN. I might point out in passing——

Mr. LEFFINGWELL. Mr. Brown, it is a little unsatisfactory, as Mr. Rathbone points out, to take too seriously a memorandum about the exchange problem which some man in the Department wrote to some other.

The CHAIRMAN. All of them taken together, it seems to me, afford the committee an opportunity to determine what the general thought and the general thinking in those hours was, and what the thought was leading to ultimately. I am sure that is the limit of Mr. Brown's intent.

Mr. LEFFINGWELL. Senator, I want to point out that sometimes a man would write a memorandum and then have a talk with the man to whom it was addressed and say, "That was a foolish idea of mine. I think you are right." Don't you see? I think what they do show, which is very satisfactory to me, Senator, is that there was a lot of hard thinking and careful discussion going on in the Treasury of the United States, and the most vigorous effort being made to see that the interests of the United States were protected in every way imaginable.

Mr. BROWN. I offer a letter to you, Mr. Leffingwell, from Mr. Crosby, dated December 21, 1917. That letter states in part [reading from "Exhibit No. 2980"]:

> I suppose you may have been disappointed and perhaps a little surprised that I indicated in some of my recent telegrams the likelihood of presentation of demands for more money——

Mr. LEFFINGWELL. I was indeed.

Mr. BROWN (continuing reading):

> and that I showed a disposition to suggest that we should meet those demands if at all possible.

He mentions maturities and exchange.

Then he continues [reading]:

> The next thing is constant payments in neutral countries. I do not think I can tell you in a letter just how constant the pressure has been in order to produce some effect upon Great Britain, France, and Italy in this respect. They do understand now that they must get about this business, but it has been a very hard job to keep them up to it.

That was in December 1917.

He mentions that he finds the same situation with respect to Spanish exchange. With regard to an Argentine loan, he has this to say [reading from "Exhibit No. 2980"]:

> A telegram has just come to me from Cravath indicating the probable success of efforts to obtain a loan in the Argentine.

That is a British loan in the Argentine [continuing reading]:

> The dilatory and unintelligent conduct of these negotiations by cable is a heartbreaking story.

Mr. **Leffingwell.** By whom?

Mr. **Brown.** These British negotiations in the Argentine.

Mr. **Leffingwell.** You mentioned the name of a man.

Mr. **Brown.** It says [reading from "Exhibit No. 2980"]:

> A telegram has just come to me from Cravath indicating the probable success of efforts to obtain a loan in the Argentine—

That is, with regard to the British Argentine situation.

Mr. **Leffingwell.** Read it again.

Mr. **Brown** (continuing reading):

> The dilatory and unintelligent conduct of these negotiations by cable is a heartbreaking story.

Mr. **Leffingwell.** Cable?

The **Chairman.** Small "c."

Mr. **Leffingwell.** I was wondering who was getting the compliment.

Mr. **Brown** (continuing reading):

> I have had to take a stronger ground than I ever expected to take in discussing these matters, which are other people's business in a way, in order to keep them up to the mark. The tendency was, in the British Treasury particularly, to be discouraged at the outset and to instantly offer terms which meant substantially that we should bear the whole burden.

(The document referred to was marked "Exhibit No. 2980" and is included in the appendix on p. 9390.)

Mr. **Brown.** I offer for the record a telegram from Mr. Crosby to Secretary McAdoo in regard to the Argentine loan. It states in part [reading from "Exhibit No. 2981"]:

> Argentine transaction includes establishment of reciprocal credit equal in amount to nominal loan made by Argentine to British and French. Consider all this arrangement extremely bad and have so indicated to interested parties here. Negotiation has been conducted in very irregular way, without due cooperation between London and Paris. This reciprocal-credit idea was introduced with view to stabilizing exchange of Great Britain and France on one hand, and Argentine on the other, not recognizing that it opened the door to the sale of sterling and franc drafts in New York, thus substantially transferring burden of loan to us.

(The document referred to was marked "Exhibit No. 2981" and is included in the appendix on p. 9393.)

Mr. **Brown**. I offer a letter of Mr. Crosby to Secretary McAdoo dated January 16, 1918, in regard to the feeling toward the American advances [reading from "Exhibit No. 2982"]:

> This feeling—

of objection to the lack of time—

> was expressed by Sir William Wiseman, a friend of Colonel House, whom probably you already know. He left for America just before Christmas, and before leaving said to me that he expected to say to our Government that if we could not find a way to do more, the British Government might have to find a way out of the war. Probably something of this sentiment has already been expressed at least to Colonel House and the President, and I suppose has reached you.

The rest of the letter discusses Mr. Crosby's difficulties in getting loan negotiations for the British and French under way. I do not think we need to go into it.

(The document referred to was marked "Exhibit No. 2982" and is included in the appendix on p. 9394.)

Mr. **Brown**. I offer a memorandum of Lord Reading, dated October 29, 1917, simply because Mr. Crosby comments on it extensively in the preceding exhibit.

Mr. **Leffingwell**. Is it very long? Could you read it?

Mr. **Brown**. Lord Reading's memorandum?

Mr. **Leffingwell**. I think it is important.

Mr. **Brown**. I think if we read Lord Reading's memorandum, we should read Mr. Crosby's analysis of it, and it would take about a half hour. They are in the record.

Mr. **Leffingwell**. That is all right.

(The document referred to was marked "Exhibit No. 2983" and is included in the appendix on p. 9399.)

Mr. **Brown**. Neither one should be used without the other, and I wanted to keep them together.

Mr. **Rathbone**. I have found what I was looking for in the article in Foreign Affairs:[1]

> The cost of the neutral finance so found after we entered the war was ultimately furnished, in the case of Italy, approximately one-half by the United States and one-half by Great Britain, and—in the case of France—something over one-half by the United States and the balance by Great Britain.

Mr. **Brown**. That is exclusive, is it not, Mr. Rathbone, of such support as might have been indirectly afforded before over the exchange?

Mr. **Rathbone**. No.

Mr. **Brown**. Or is that an estimate of the exchange, as well as the direct advances for neutral purchases?

Mr. **Rathbone**. That was intended to give approximately the proportion of Great Britain's and the United States' financial help to France and Italy in purchases in neutral markets and in exchange.

Mr. **Leffingwell**. From the time of our entry into the war.

Mr. **Rathbone**. From the time of our entry into the war.

Mr. **Brown**. It includes an estimate of neutral arbitrage exchange?

Mr. **Rathbone**. That was included and was an estimate made up, but if you wish the breakdown figures, I cannot now tell them and have no idea.

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[1] See "Exhibit No. 2781", appendix, p. 9207.

Mr. Brown. I offer a letter from Lord Reading to Secretary McAdoo, under date of February 27, 1918, as to a Dutch loan, showing that the British desired to have some securities subrogated to the United States and Holland for that loan.

(The document referred to was marked "Exhibit No. 2984", and is included in the appendix on p. 9401.)

Mr. Brown. Concerning loans in Holland and Switzerland, I offer a group of documents, being a letter from Lord Reading to Secretary McAdoo of March 11, 1918; a letter of Secretary McAdoo to Lord Reading of March 12, 1918; a letter from Mr. Blackett to Mr. Rathbone of September 20, 1918; a letter from Mr. Rathbone to Mr. Blackett of September 21, 1918; a telegram to Mr. Crosby from Mr. Rathbone of September 21, 1918; a letter from Mr. Rathbone to Mr. Crosby of September 27, 1918; a memorandum initialed by Mr. Rathbone on September 27, 1918.

(The documents referred to were marked "Exhibits Nos. 2985 to 2991", respectively, and are included in the appendix on pp. 9402 to 9404.)

Mr. Leffingwell. Those all bear on what subject, Mr. Brown?

Mr. Brown. On the Dutch and Swiss loans, to complete the record.

Then to complete the record further, I will offer a cable from Mr. Crosby to Secretary McAdoo of March 13, 1918, concerning the then status of British and French borrowings in neutral markets.

(The document referred to was marked "Exhibit No. 2992" and is included in the appendix on p. 9404.)

Mr. Brown. I offer for the record tables taken from copies of financial reports submitted from 1918 to 1922, showing the amounts of neutral borrowings by Great Britain.

(The three documents referred to were marked "Exhibits Nos. 2993, 2993–A, and 2993–B", and are included in the appendix on pp. 9405 and 9406.)

Mr. Brown. Mr. Rathbone, I believe you have spoken a number of times about the number of dollars furnished the British and French in exchange for sterling and francs needed by the American Army and Navy. All the francs and sterling furnished were purchased by original new dollar sums? They were in no case offset by sterling purchases, advances, and so forth? They were always bought fresh?

Mr. Rathbone. That is true.

Mr. Brown. In regard to some of the uses to which some of this money was put—and possibly we cannot determine any accurate figure, and therefore it perhaps should stay in the record and not be described at any great length—I offer a group of letters from L. L. Summers, who was the vice chairman of the War Industries Board and Chairman of the Inter-Allied Council on Munitions, to Mr. Bernard Baruch. The only point about them is an old yarn. It states [reading from "Exhibit No. 2994"]:

> One thing that surprises me as absurd is that the French charge the British a rental for trenches and they also charge the Americans this rental. In the little villages in France where the troops have been billeted, the residents have made claims for damages, for instance: they claim damages where windows in a house have been broken, and it looks as if these charges could be made against each lot of soldiers who arrive.

In regard to the trench-rent story, there is a more accurate account given in a letter from Mr. Crosby to Secretary McAdoo, in which he has this to say [reading from Exhibit No. 2995"]:

> Contrary to widely prevalent rumor as to payment of rental for trenches, Lord Gainford tells me that no such charge has been made in the actual fighting zone. His Government has paid rental for trenches constructed several years ago approximately 20 miles in the rear of the fighting zone. These were likened in principle to training camps, and compensation has been made to the proprietors of the land across which these trenches were dug.
>
> The general line of demarcation in respect to damages to, or occupation of, private property may be thus stated—

Then he goes on into the subject.

The CHAIRMAN. In that connection, Mr. Brown, what were the rentals paid for trenches?

Mr. BROWN. There is no possible way of estimating. These letters, Mr. Chairman, indicate that all kinds of considerations, of all sorts, entered into these franc and sterling needs. It was not a very simple matter, and an accounting analysis is quite out of the question.

The CHAIRMAN. In analyzing the charges, is it true that while we were charged for our occupation of the secondary trenches, second-line trenches, the French let us use the first line or front-line trenches without any charge?

Mr. BROWN. Oh, certainly.

(The documents referred to were marked "Exhibits Nos. 2994 to 2998", and are included in the appendix on pp. 9406 to 9417.)

Mr. LEFFINGWELL. I do not know anything about it, Senator, but is it not true that if you wanted to know about all that, you would have to make inquiry from the War Department and find out what their disbursing officers paid?

Senator CLARK. They charged us for everything they could get us to pay.

Mr. BROWN. Mr. Leffingwell will recall, I am sure, the tremendous complexities in trying to settle those accounts.

Mr. LEFFINGWELL. The Treasury was not designated the disbursing officer of the Government, but the bank on which they drew, and the checks came back. While a Treasury official in France would pick up stories passing about there and write home letters about them, if you really want to know about the whole matter, the natural thing to do would be to go ask the disbursing officers of the Army about it.

Mr. BROWN. I think the real point about it, even down to the minutia, expenses of Americans in Europe were paid for by dollars right over the table, whereas the expenses of Great Britain and France in this country were paid for by loans. Mr. Rathbone was making such a large point of the fact that the maturity payments were less than the amounts furnished in exchange for francs and sterling, and the two items are not in essence so separate as Mr. Rathbone would have us believe.

Mr. RATHBONE. Mr. Brown, you do not consider for a moment that the Army got appropriations from the Treasury. They got the appropriations from the United States Congress, and it was the Army and not the Treasury that spent those appropriations. The Treasury's duty was to give to the Army whatever dollars it had a right to get under its appropriations.

We could not concern ourselves or dictate to the War Department whether they would pay for a front-line trench, or something of the sort.

Mr. **Brown**. May I interrupt? That is not the question at issue. The question is simply the distinction between advances and purchases of sterling and francs. As you have said yourself, if they used the money from purchases in some approved way, that meant that that much less had to be advanced. The two sums are not altogether separate. However, I think we can drop that subject.

I offer for the record a letter from Mr. Blackett to Mr. Leffingwell of April 2, 1918, which shows in the table one interesting point.

(The document referred to was marked "Exhibit No. 2999" and is included in the appendix on p. 9419.)

Mr. **Brown**. These are the accounts between France and Great Britain: Counter value of dollar amount placed at the disposal of the British Treasury—that is, by France—£25,000,000.

(The document referred to was marked "Exhibit No. 3000" and is included in the appendix on p. 9420.)

Mr. **Brown**. In other words, it is presumed from this table that Great Britain was buying dollars loaned to France with sterling furnished to France.

Mr. **Rathbone**. I do not quite get it.

Mr. **Brown**. This table would indicate that the sum of £25,000,000 on that particular date had been paid the French in exchange for dollars, which was not at all unusual or in accordance with the Treasury custom?

[Several minutes of study of the document by Mr. Rathbone.]

Mr. **Brown**. Could we not come back later? In the meantime, I want to clear this up. I offer for the record a letter from Mr. Kent to Mr. Rathbone of February 28, 1919, showing purchases of £15,000,000 of sterling over the New York market by the Bank of France and the Treasury's objection to that proceeding, which is shown in a letter from Mr. Rathbone to Mr. Kent, of March 3, 1919; that is, the objection to use dollars by the Bank of France to buy sterling was then up.

(The documents referred to were marked "Exhibits Nos. 3001 and 3002", and are included in the appendix on p. 9421.)

Mr. **Brown**. I offer for the record in regard to the balance of this material on the French exchange, which was of a different character, a group of documents which I believe can be identified without comment in that way.

The **Chairman**. They can, if it is agreed upon.

Mr. **Leffingwell**. Will you tell us their general subject?

Mr. **Brown**. It is simply about the French exchange and the attitude on the part of the British and some slight loan negotiations important to it. They are all Treasury documents. Also certain negotiations about the establishment of the franc rate from time to time, as the American advances dried up the private needs of the French for dollars.

Mr. **Leffingwell**. It is around the summer of 1918?

Mr. **Brown**. Yes; that the French were taking advantage of the unnatural franc market to raise the rates against the needs of the Army.

(The documents referred to were marked "Exhibits Nos. 3003 to 3016", and are included in the appendix on pp. 9422 to 9433.)

THE WAR DEBTS [1]

Senator VANDENBERG. Mr. Leffingwell, I have been very much interested in the joint memorandum which you submitted this morning, and I want to read one sentence from the last page, page 25 [reading] [2]:

> The loans the Treasury made were wisely and cautiously made; and, given a rational peace settlement and rational policies—political and economic—of the nations of the world, including our own, after the treaties of peace had been signed, the loans would for the most part have been collectible.

I would be tremendously interested in having you enlarge upon what we could have done to keep the loans collectible.

Mr. LEFFINGWELL. That seems an awful thing to invite a man like me to start—on a subject as large as that, at the end of 2 days, Senator.

Senator VANDENBERG. Would it be a large subject?

Mr. LEFFINGWELL. I think it is a very large subject, but I will try to make a very short answer.

I think that what was in my mind, and I suppose what was in the minds of the group in the Treasury that were considering these problems together at the end of the war, after the fighting stopped, was that a peace of appeasement, a peace of political and economic appeasement might result in a world that had a hope of recovery and the hope of a future, a permanent and lasting future for mankind, and that America's contribution to that might be the lowering of the economic barriers to world recovery.

By that I mean less restrictions on trade, lower tariffs, facilitating the foreign exchanges, reducing the reparations claims against the then vanquished enemies, making territorial readjustments, such that errors found in the first settlements would be ameliorated with reasonable promptitude and creating a world in which the nations of the world, including the United States, instead of isolating themselves from each other and trying to cut off each other's trade and grab everything for themselves, would attempt to restore a world in which it was conceded that every man and every nation was every man's and every nation's neighbor; and that we could all get prosperous together again more rapidly if we tried to help each other constantly, conceding something here and conceding something there, and help to build a prosperous world and a peaceful world and a good-natured world to trade in.

Senator VANDENBERG. You did not have in mind anything that we could have done under the status as developed to accomplish that?

Mr. LEFFINGWELL. I think the status, as it developed—it is very, very dangerous for any man ever to say, as he looks at his own country or his own conduct, that a very unhapply situation is wholly attributable to everybody else and not in any respect to himself. And I suppose that the United States Government might have taken the lead in economic and political adjustments, just as some other government might. I am not more critical of one country than another. It is not well to attempt to decide who is at fault. We all know that the disasters that the world has endured are attributable not less to the economic war after the war than to the war itself.

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[1] See also "Exhibits Nos. 3167 through 3174", Hearings, Part XXX; and "Exhibits Nos. 4126 through 4127", Hearings, Part XXXII. For Belgian Transaction, see "Exhibits Nos. 3978 through 3983", Hearings, Part XXXII.

[2] See "Exhibit No. 2952", appendix p. 9344.

Senator CLARK. As a matter of fact, Mr. Leffingwell, the economic war which followed the war was really the inevitable result of the war itself, was it not?

Mr. LEFFINGWELL. I am an optimist, Senator, and I always like to think that no failure is inevitable.

Senator CLARK. Suppose I strike out the word "inevitable." It has actually followed in the immediate train of the war itself?

Mr. LEFFINGWELL. It has actually followed in the immediate train of the war itself.

Senator CLARK. Every economic condition which we have in the world today, including the United States, the tremendous depression, all the debts, really follow directly from that conflict, do they not?

Mr. LEFFINGWELL. It follows after it.

Senator CLARK. Do you not think it follows directly from it?

Mr. LEFFINGWELL. No; I think all those things are very difficult to state. The history of the United States of America was a constant development of economic nationalism as the national policy of the United States. It did not begin with the World War—it did not begin with the World War.

Senator CLARK. I will grant you that that is true.

Mr. LEFFINGWELL. I want to make a confession. I am a free-trader, and I believe in free trade, and I believe in it as one of the things which makes for the economic welfare of mankind. That is not a popular view. Certainly economic nationalism in the United States was not a consequence of the Great War. It went on and increased after the war, but it had been a national policy almost from the foundation of the Republic.

Senator VANDENBERG. Mr. Leffingwell, did you have anything to do with the refunding debt agreements?

Mr. LEFFINGWELL. Nothing at all, sir. I was out of the Treasury in June 1920. Mr. Rathbone and I resigned about the same moment in June 1920, and the funding agreements were made in 1923. Mr. Rathbone made a suggested funding agreement in 1919 and 1920, with which I was fully familiar and in complete accord, but that funding agreement failed of accomplishment because the British Treasury found itself unable to accept the terms that Mr. Rathbone offered to them and——

Mr. RATHBONE. The British Cabinet.

Mr. LEFFINGWELL. The British Cabinet; not the British Treasury. Mr. Rathbone could tell you about that.

Senator VANDENBERG. Mr. Lamont, were you consulted in connection with the refunding agreements?

Mr. LAMONT. Oh, no, sir.

Senator VANDENBERG. Are you familiar with them?

Mr. LAMONT. In a general sense, Senator, just as you are.

Senator VANDENBERG. This may be a little afield, but I do not know when I will have a chance at such talent again in this expert field. I would like to know what you think would happen if the United States Government were to exercise its option under the refunding agreements to ask for marketable obligations from the debtor countries at the present time.

Mr. LAMONT. You mean what would happen if they were to ask for those obligations, and then consider peddling them out?

Senator **Vandenberg**. In the first place, are you sufficiently familiar with the agreements to say whether or not you think we would be entitled to ask for these marketable obligations?

Mr. **Lamont**. No; I am not. I have not refreshed my mind recently, Senator. I see you have that before you. Where is that clause?

Senator **Vandenberg**. It is clause 9, page 110, being the clause from the British agreement, in which they seem to give us a rather definite option to ask for these marketable securities, whenever we please.

Mr. **Lamont**. Yes; of course, aside from this particular provision, Senator, if you jump over one or two hurdles and come to the question of whether the American investors would buy obligations of any of these governments which are now in default, I should think the answer would be that, as long as they remained in default, the obligation would not find a market here.

Senator **Vandenberg**. I am not thinking of that. I am thinking about the fact that if, as a result of the exercise of this option, you could procure marketable obligations of the debtor countries, which are indistinguishable from any of their other bonded securities on the markets of the world, that you have not got to sell them to American investors, but you can put them into the world market, precisely the same as all the other obligations of these debtor countries flow from day to day. Would not that be true?

Mr. **Lamont**. These would necessarily be dollar obligations, would they not?

Senator **Vandenberg**. They are payable in sterling also, I think, and they are subject to all the conditions of the existing general bond collateral. Assume, for the sake of argument, that you have got marketable securities that are indistinguishable in respect to their terms and value from other securities of these foreign countries, would they not be automatically marketable in the markets of the world, rather than depending upon sale to American investors?

Mr. **Lamont**. Senator, let us examine that for a moment. In the first place, I am not aware that the two chief obligors, the British Government and the French Government, have their obligations outstanding in any other markets of the world. So that the consequence would be, that these would have to be distinguishable, because they would be practically the only obligations of those Governments that were being offered.

And no matter to what nationality of investors they were offered, as long as the obligor remained in default of his obligation to his creditor, I should not think that they would be salable anywhere.

Senator **Vandenberg**. This default does not seem to affect the credit of these defaulting obligors in raising other current funds, does it?

Mr. **Lamont**. Well, it certainly does in the United States market.

Senator **Vandenberg**. Oh, yes; but I mean in the world market.

Mr. **Lamont**. Again I point out that so far as I am aware, the British Government and the French Government are not borrowing funds in foreign markets in that way.

Senator **Vandenberg**. Are there no British or French governmental securities on the markets of the world?

Mr. **Lamont**. I do not know of any.

Senator **Vandenberg**. Are there no British consols, or anything of that sort?

Mr. **Lamont**. Not issued in foreign markets. There are British consols, payable in sterling, but I do not know of any British consols payable in other currencies.

Senator **Vandenberg**. Suppose we got our marketable obligations payable in sterling, would not, ipso facto, the British find it necessary to sustain and absorb them for the protection of their credit?

Mr. **Lamont**. I should not think so, because I do not see how you can make them identical, Senator, with British consols existing today, how you can possibly do it. They constitute the obligations of the British Government to our Government. We all deplore the fact that they are in default.

Senator **Vandenberg**. That is what they are now, but under the terms of the refunding agreement, we are entitled to transfer them, Mr. Lamont, into definitive bonds, in forms suitable for sale to the public in such amounts and denominations as the Secretary of the Treasury may request, and so forth.

I am asserting nothing, but I am simply inquiring from you, as an expert on this subject, whether you think that there is any field in that option that could be effectively explored by the American Government in pursuit, at least, of the transfer of the defaulted section of the loans into marketable obligations? Do you think that that option could be exercised effectively?

Mr. **Lamont**. Let me answer it, if I may, Senator, in this way: I am not a lawyer and I think it would require a lawyer to construe these paragraphs, and I notice that lawyers here are very sensitive to the construction of laws by laymen, so that I shall not attempt to construe that.

Senator **Clark**. No more so than the construction of banking matters by lawyers.

Mr. **Lamont**. You may be right there.

Senator **Vandenberg**. The batting average of lawyers is not so high at the moment in Washington. [Laughter.]

Mr. **Lamont**. Senator, you have read this more recently than I. Is it not true, that when the payments under this agreement became in default, as they did in 1931 or 1932, or whatever it was, after these governments had paid up 2½ billion dollars on them, when they came into default, did not the agreement itself fall to the ground, and in the absence of a new agreement between our Government, the British, French, and other governments, these agreements no longer exist?

Senator **Vandenberg**. That may be entirely true, but I would a good deal rather have the British Treasury say that than take it for granted in advance. I would like to ask them.

Mr. **Lamont**. If the Government solicitors advise you that you are well within your rights in asking them as to their view on such an inquiry, why not let the State Department address a letter? They address a letter every 6 months, as I recall it, to the general officials of these defaulting governments, commenting on the situation, and I should think they would be quite capable of that.

Senator **Vandenberg**. Mr. Lamont, have you any suggestion to offer—and I apologize for getting so far away from home base—but do you have any suggestion to offer as to what the Government of the United States could do in respect to these defaulted loans?

Mr. **Lamont**. I cannot permit myself to be drawn into a discussion of the whole question of intergovernmental debts, because it is so complex a one, and I hope that my partners will freely interrupt me in any replies that I give.

Replying direct to your question, the only possible way that I can see is for a fresh negotiation on the part of the Governments to be undertaken, to see whether fresh agreements can be arrived at, applicable to both sides, under the circumstances, and, if it is, then and thereafter the matter of payment, whether it might be by the sale of foreign obligations in this market or not, might well come up.

Senator **Vandenberg**. Suppose we made a new agreement, would it be possible to write that agreement in terms of payment which would defy default?

Mr. **Lamont**. I should not think so, in such sweeping terms, Senator, but I should think that if we would rather have a half loaf than no bread at all, you might reach with your chief obligor governments some basis of settlement that within all reasonable conditions would be susceptible of fulfillment.

Senator **Clark**. Have not we already done it once, Mr. Lamont, and found it rather ineffectual? In one case we scaled down about 80 percent, did we not?

Mr. **Lamont**. I think you did in the case of Italy, Senator, but without attempting to give the side of the obligor governments in any sense, I may recall these facts to you; namely, that when the British entered into the refunding agreement in 1922 or 1923—and at the time I think it was considered a fair agreement on both sides; you are quite right—when that happened, the British were figuring on being able, when they returned to the gold standard, to maintain themselves on the gold standard. They were feeling or believing they could achieve increase in their foreign trade by lowering the cost of labor in Great Britain, and neither of those happy events was carried out.

Despite that fact, Great Britain and France were able and did pay to our Government as a total sum on their debts not less than $2,486,000,000. Those are the figures I took down from Mr. Leffingwell's statement of the other day. So that they paid a very considerable sum, showing their good faith and their tremendous desire to meet their obligations.

Then along came the break-down in central Europe, to which Mr. Leffingwell alluded a moment ago, with the break-down of the credit of all the powers in central Europe, followed by the Hoover moratorium, and by the depression that has been common all over the world, not our own country alone, where it has been very deep and severe, but all over the world, and the consequence is that these governments state—and I do not question it—that they are unable to find dollar exchange sufficient to enable them to pay the full total which they are obligated to pay under those agreements.

Senator **Vandenberg**. Do they find dollar exchange to buy large amounts of American securities in our markets?

Mr. **Lamont**. Their investors find dollar exchange sufficient to make certain investments—I do not know how considerable—but that, of course, is a very different thing from translating all the savings of the British investor, for instance, into Government taxes and then enabling the Government to transfer that sterling into dollars.

As I recall it, I heard some years ago that at the time the American Government here invited the British Government to consider what they could do in the way of a fresh agreement, the British Government, according to rumor—I did not have it authoritatively—stated that they might be able to settle on a basis of a very considerable sum, provided it was in form so that American investors would be attracted to buy those obligations, which is the very point, apparently, that you have in mind.

But that again, necessarily means that the American Government must reach a fresh settlement with these people on a basis which will work it out.

Senator CLARK. That, of course, means also, does it not, Mr. Lamont, that if we would scale down the debt, they would be willing to transfer it from a public American debt to a private American debt? That follows from your statement, does it not?

Mr. LAMONT. It would be more easy to handle, but there is no specification that it should be so transferred. The question of the Senator from Michigan is addressed to the point, referring to the American Treasury, as I understand it, whether there is any way by which they could be relieved, whether any means could be devised.

Senator CLARK. I do not want to interrupt Senator Vandenberg, but I was referring to the portion of your statement in which you said you had learned by rumor that the British Government had indicated, when the United States Government requested further negotiations, that the British Government had indicated that if we would scale the debt to a suitable amount, they would be willing to enter into some obligation to pay it, provided they could sell their securities to the investors in this country and simply have the effect of transferring the debt from a public debt to a private debt, which I gather is the opposite of what has gone on before, and that according to what has gone on before they transferred it from private debts to public debts, and the question would be the reverse of that procedure, would it not?

Mr. LAMONT. The way you put that, Senator, with all due respect, laid undue emphasis on the report which I heard at the time. The American Government, according to the public press, was desirous of trying to settle the debt matter and find some basis for settlement, and I think that possibly they were canvassing every possible means at that time to relieve our Treasury, and so forth. It was not a proposition, as I understood it, at all, but it was a back-and-forth conversation, but the matter bears considerably on Senator Vandenberg's inquiry.

Senator VANDENBERG. I am very much obliged to you, Mr. Lamont, for your discussion.

Mr. LAMONT. I am very sorry I have not been able to suggest a means for immediate payment, Senator.

Mr. RATHBONE. To get back to an earlier question, this exhibit[1] which Mr. Brown put in I do not think indicates that the United States Treasury loaned dollars to France in order to enable them to obtain sterling.

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[1] See "Exhibit No. 3000", appendix, p. 9420.

Senator VANDENBERG. Mr. Lamont, may I ask one other question? Supposing we had exercised this option before there was any default in the obligations, at which time there could have been, I assume, no legal question about the validity of the option. If the debt had been transferred into marketable obligations at that time and had reached the investing public, do you think there would have been a default under it?

Mr. LAMONT. Oh, in that amount? I do not see how there could have been any avoidance of default in that amount. But, you see, Senator, you make that assumption, which I think would be hardly possible of fulfillment. It is this, that there would be an American market for a total of $4,000,000,000 of British Government securities, putting it in that form, or for an equivalent of $2,500,000,000 of securities of the French, putting it in that form, or perhaps three quarters of a billion of Italian securities.

But I do not think the American markets would possibly have absorbed any such quantity as that.

Senator VANDENBERG. You are insisting constantly, of course, that the only market is the American market. Would that be true with respect to a sound British obligation? Would there not be a British market for a sound British obligation, and would there not be a French market for a sound French obligation? Why did it all have to be absorbed in the American market?

Mr. LAMONT. There would be a fair British market for a British obligation that was strictly British, but you have to have regard for your present domestic obligations existing in both the British and French and other markets.

Senator BONE. As I look at this provision, this seems to imply the issuance by the British Government of a strict legal and governmental obligation, and it provides for sale in Great Britain of the obligations of the British Government. This appears to authorize specifically the sale in Great Britain of British governmental securities. If they are sold in Britain you could translate the sterling into American dollars, could you not? Great Britain certainly would have no great difficulty in refunding all her great blocks of debt.

Mr. LAMONT. Where would you get the dollars from, Senator Bone?

Senator BONE. You are the expert and I am not. I want to know. The contract itself provided for the issuance of governmental securities. It authorizes the sale in Britain of these British securities, for the option to be exercised by the British Government to make some other disposition of the debt.

Mr. LAMONT. Senator Bone, are you sure that that defaulted agreement provides for the issuance of sterling securities?

Senator BONE (reading):

> The United States, before offering any such bonds or interim receipts for sale in Great Britain, will first offer them to Great Britain for purchase at par and accrued interest.

I do not know what that language means if it does not mean exactly what it says.

Mr. WHITNEY. Where are the dollars?

Senator BONE. This says the British Government, as I read it. will issue its own governmental securities, precisely as the United

States Government issues its own bonds, and they will be sold here or in Britain or anywhere on world markets.

Mr. LAMONT. Mr. Leffingwell, are you more familiar with that agreement which Senator Bone is quoting from?

Senator BONE. I do not think it may permit of more than one construction; perhaps it does. I know that was the general understanding in this country at the time it was entered into. I never have been able to understand why a debtor defaulting a payment of a debt thereby invalidates the debt. This debt has as much life today as the day it was incurred.

Mr. LAMONT. Oh, certainly; it is just as much of an obligation.

Senator BONE. But we have been talking here of a default in a debt as though it somehow, by some mysterious process, wiped out the debt and compelled us to start afresh. We do not have to negotiate these debts all over again. They are an accomplished fact. Here is the British Government. If the Government wants to repudiate its own debts, of course there is no way, as I explained yesterday, that we can compel them to pay it.

Mr. WHITNEY. But the United States wants dollars, does it not?

Senator CLARK. Yes; but Mr. Whitney, we had better suffer some loss in exchange. But assuming we are able to take sterling bonds, about which there seems to be some disagreement among us——

Mr. LAMONT. Very great.

Mr. CLARK. Assuming we had a right to demand sterling bonds of small denominations, let us assume that instead of taking a series of bonds for $4,000,000 apiece, the agreement was executed and we said, "All right, give us bonds of $1,000, payable in sterling at the current rate of exchange." There was nothing in the agreement that said we had to sell them all at one time. We might have sold them from time to time as the stock of gold flows from this country, or anything else.

It seems to me we would much better have taken some loss in exchange if that were necessary than to lose as large a proportion as we are about to lose, or have already lost.

Mr. LAMONT. I am not a lawyer, but I do not see anything in that wording to indicate the obligation of Great Britain to deliver sterling bonds. On the contrary, the whole agreement is drawn up on the basis of dollar bonds.

Senator BONE. Obviously, they cannot issue United States bonds.

Senator VANDENBERG. May I call your attention to the language in the body of the bond itself, which says, "Gold coin of the United States or its equivalent in gold bullion."

What does that mean? Is not that sterling? Is not that the equivalent of sterling?

Mr. LAMONT. No; that is just gold. Of course, as you recall, before the default occurred, Great Britain shipped over here in that final payment, $80,000,000 in gold itself. That conformed to that part of the agreement.

Senator VANDENBERG. If you had this contract in J. P. Morgan & Co., and you had this gold bullion privilege, I would like to bet about 50 cents to a plugged nickel that you would make your contract stick.

Mr. LAMONT. Senator Vandenberg, I think we should have to persuade you to become a member of our firm in order to carry that out.

Senator VANDENBERG. And bearing on the other subject, as to where it is going to be sold, I understand that the French agreement contains a clause which specifically binds the French Government to list these marketable obligations on the French Exchange, which would indicate that it is not contemplated that it would be an American market operation.

Mr. LAMONT. Just to wind it up, so far as I am concerned, I think it has required a great deal of effrontery on my part even to comment in any way upon a matter which is so purely governmental. I mean to say, I think that the members of the administration here and Treasury officials might well think I was going far outside my province.

I hope that you will hold me harmless, sir, for having tried to answer your personal questions.

Senator VANDENBERG. Oh, certainly, and there is no criticism of the Treasury or the administration or the Government intended in my inquiry. I am simply wondering if there is not something in the letter of this contract which entitles us to make some more tangible progress toward integrating this apparently hopeless obligation.

Mr. LAMONT. I think the only substantial answer to that is this:

The situation in which the world is today apparently has made it impossible for these foreign governments to get dollars to transfer in payment of their obligations in the amount stated in the contract.

Senator VANDENBERG. Do you think that is the reason they have defaulted?

Mr. LAMONT. I have no question about that. I think they are very anxious not to default. I give them that credit.

Whenever you or I go to England, you can hear the same expression on the part of the people there. They regard the so-called defaulted debt, I think, as a very difficult point in the friendly relations between the two countries. Either the economy of the whole world has to improve in the way that Mr. Leffingwell hoped it would improve in 1919, from that time on, or else we, being a wise creditor, must see whether we can make any arrangement that will mean an amount which can be transferred into dollars.

Senator VANDENBERG. As a practical proposition—and I am through after I ask you this, and I apologize to everybody for the time I have consumed——

The CHAIRMAN. Not at all. I think the matter has been wholly pertinent.

Senator VANDENBERG. As a practical proposition, would you favor the basis of lump-sum settlement as against this type of agreement?

Mr. LAMONT. There again I am impinging on the preserves of our own Government, but surely, as a financial matter, if you could make a lump-sum settlement that could be translated into some sort of a security which would take it away from the United States Treasury entirely and make it a nonpolitical matter, remove it from the field of controversy, or remove it from the field of any ill will or resentment on both sides of the water, I think that would be an admirable solution.

Senator BONE. If your viewpoint is correct, we might as well just dispose of any hope of ever collecting anything from these defaulting Allied governments.

Mr. LAMONT. No; I do not think so, Senator Bone.

Senator **Bone**. How do you think the monetary situation confronting the world today could improve so that these governments that have deliberately defaulted on these payments will resume payment on their debts?

Mr. **Lamont**. I did not say, Senator Bone, that it could improve. Senator Vandenberg asked me what the alternatives were and I pointed out that in the case—take Great Britain as a typical case, they still owe in principal something, I suppose, like four billions of dollars. It is not possible, apparently, for them to fulfill that amount under present conditions.

Now, either the world has to improve so that they can meet the obligation as it stands today, or, lacking that improvement, if we want to get a final settlement we have to arrange to take less than the full face of the bond.

Senator **Bone**. If they cannot get gold, how could they make any kind of a settlement?

Mr. **Lamont**. Oh, well, of course, in the same way, Senator, that they paid this very large sum that Mr. Leffingwell was thinking about and that I mentioned a moment ago. They did pay, both Great Britain and France, a total of almost 2½ billion dollars on their debts. They paid that in all sorts of ways—some gold shipments, but mostly through the exchanges.

Senator **Bone**. Is there anything in the mechanism of the exchange that would prevent Britain from today resuming that operation and making some payments on this debt?

Senator **Clark**. As a matter of fact, they have even dropped it out of consideration in their budgets.

Senator **Bone**. I understand they have simply dismissed it very casually, apparently. But is there anything in the present-day picture that would prevent Britain and others from resuming payments, however small, on this debt, instead of repudiating it?

Mr. **Lamont**. That I cannot answer, Senator Bone.

Senator **Bone**. Of course, I merely seek information about the condition of the money markets of the world. I frankly cannot see any reason for what has been suggested here, why they should not resume some sort of payments on these debts.

Mr. **Lamont**. It is conceivable, is it not, that having been put in the position of default, they would wish to reach what might be considered a final settlement again—possibly a fresh settlement—before beginning payments on even a very trifling scale?

Senator **Bone**. We have written these debts down in times past, and there is apparently no reason why we should try to arrive at a further composition of these debts. I am frankly at a loss to understand why you gentlemen and others—it is no reflection on you or anyone else, for that matter, but I am at a loss to understand why a fixed governmental document of this character would be drawn in such confusing language that apparently no one knows what it means.

It is small wonder that the mass of people lose respect for government when Jovian-browed lawyers and statesmen and whatnot draw papers of this kind, so that we sit around this table now when this is sprung on us—I never saw this until Senator Vandenberg brought it to our attention—and all of us sitting about this table are unable to interpret the meaning of this what you have suggested is rather obscure language.

Senator **Vandenberg.** I might add that I asked the Treasury for an interpretation 10 days ago, and I am still waiting for the interpretation.

Senator **Bone.** I would like to see the interpretation of the Treasury Department of the United States on this language.

Mr. **Lamont.** Senator Bone, no matter how deplorable the nonpayment of these debts is at the present time—and it is deplorable—nevertheless, as Mr. Leffingwell pointed out this morning, we would rather lose some dollars as a country than to have lost any more lives in place of the dollars.

Senator **Clark.** Coming back to these statements made here about the payments that have been made by Great Britain, for instance, and by France on those debts, as a matter of fact the British took out of this country in the shape of loans more money than they paid in on the public loan; is not that true?

Mr. **Lamont.** Oh, no.

Senator **Clark.** Year by year?

Mr. **Lamont.** Oh, no; the British and French took out between them one loan of $500,000,000, and then the British Government borrowed here a total of $800,000,000, amply secured. That is all the British Government ever borrowed here.

Mr. **Leffingwell.** Is it not further true that the British Government has been repaying its private indebtedness in this market rather than increasing it?

Senator **Clark.** I was going to ask about that in just a moment, whether Mr. Lamont's suggestion a moment ago, that they might transfer this loan, if it was scaled down and the American investors took it, might possibly result in benefit to the United States as a nation in this, that I understand the British have always been better pay with regard to their private obligations than they are on their public obligations.

It is a fact, is it not, that the British have never defaulted on a debt to private individuals?

Mr. **Whitney.** That is a fact.

Mr. **Lamont.** I have never heard of a default.

Senator **Clark.** That was their record, and that record is very much higher than their record in regard to public debts. It might be desirable from the national standpoint to transfer this to the hands of private individuals if the hands of private individuals are willing to take the chance.

Mr. **Leffingwell.** Senator Clark and Senator Vandenberg, would it be appropriate for me to say that this discussion is giving an almost perfect illustration, to my mind, of that economic nationalism which is retarding the payment of debts and world recovery? We must try to put ourselves in the shoes of the other fellow if we want to come to an agreement.

I care so much about this, Senator, because it does seem to me that the solution—and I am a man who believes in free trade, who believes in what President Wilson said in 1919 to the Congress of the United States, that the way to handle these debts and bring about recovery was to lower tariffs—I do believe that we must recognize, if we want to bring about an understanding, whether it be by the sale of bonds in the market or by the payment of a capital sum or a lump sum, that we will never reach a solution of this problem on the theory that the others are the 11 stubborn jurymen.

We must recognize that they probably have some case on their side.

Senator CLARK. Wait just a minute, Mr. Leffingwell. I agree thoroughly with what you say as to the dangers of economic nationalism. I am an extremely low-tariff man myself. I think that the United States has aggravated a very bad situation by its policy of a protected tariff, if that has anything to do with this question.

But coming back to the question of these debts, which is a very important matter in our whole fiscal set-up, we are the only Nation in the world—and I say we are very blameworthy for some of our economic policies—that has ever made any effort whatsoever in this regard.

We gathered around the board with these other nations and conceded in one case 80 percent of the obligations honestly incurred, in another case 50 percent, and in another case 20 percent. We conceded 80 percent in the case of Italy, and in the case of Great Britain about 20 percent; and they were agreements entered into in perfectly good faith. They not only have not paid us but they have actually flouted us by dropping them out of consideration in their budgets.

I say that with all agreement with your suggestions about economic nationalism, when you begin to talk about these debts, we are the only nation in the world that has done anything to work out an economic situation.

Senator BONE. I wonder if any of you gentlemen can advise us if Britain became indebted to other neutral countries during the war, and, if so, whether she subsequently paid her debts to those neutral countries. Can you enlighten us on that point?

Mr. LAMONT. I have no information on that.

Senator CLARK. She borrowed $25,000,000 of Denmark, and a certain amount of Japan.

Mr. LAMONT. The other way around, I think, Senator.

Mr. LEFFINGWELL. I have the impression that whatever borrowing was done by the British Government abroad in neutral countries was done in the private market, that there were no real debts of the character we are discussing incurred by Great Britain or any—were there any intergovernment debts?

Senator BONE. How could the British Government make any moral distinction between borrowing the money of an individual in Switzerland, say, and borrowing the money from the United States Government?

Mr. LEFFINGWELL. That is the real thing, and I was going to try to say that to Senator Clark and Senator Vandenberg, too, because I do think it is important, and I think it is important with all my heart, gentlemen, that we should try to understand the point of view of all of the other 11 jurymen, right or wrong.

The Treasury of the United States, in my time, and so far as I know in all other times, has said they were wrong; but right or wrong, you must understand their point of view. They are men like ourselves and nations like ourselves, who place a value upon their honor and their credit, like ourselves.

Their points of view come down in effect to this, that their whole war financial structure ties in together; that it was not practicable for them to surrender their claims against Germany and Austria, admit default in their claims against Germany and Austria, for England to admit nonpayment of her claims against France, Italy, and Belgium, for France to admit nonpayment of her claims against Russia, and still make payment of the war debt incurred to the United States, after the economic catastrophe of 1931 which befell the whole western world.

This Government in 1931 recognized that fact and tendered to the Allied governments and Germany a plan of a moratorium, and I think it is important—I do not ask for any consideration as to the merits of the problem and I do not ask anybody to state that the Allied governments are right; but if you wish, as I think we all do, to see peace and good-will among the nations and national reconstruction, every well-disposed person must wish to see this war debt problem solved—I think it is important that we must recognize that other great nations of the world are as clear in their minds that they are right and that what we ask is impossible as we are in our minds that we are right and that what we ask, they should do.

I am only making this plea for peace because, gentlemen, I assure you your inquiry into the causes of the war must lead you to the conclusion that the fundamental cause of war is ill-will and bickering among nations. If we cannot guide our foreign policy in the spirit of accommodation and good will among nations, we cannot avoid war.

Senator CLARK. So that as we are in this situation as a matter of good will toward the other nations of the world, we ought to sit with our hands folded while they spend the money that they could pay us on preparation for another war.

Mr. LEFFINGWELL. No; I do not want you to sit with your hands folded for 1 minute. What I would like best of all in the world would be that you should sit down, you, the Government of the United States, the President of the United States, and the Senate advising and consenting and arrange further plans for peace and good will and economic and political cooperation among nations.

Senator CLARK. Do you think that if the United States were to propose, as it has been practically proposed, that we were willing to make a pro-rata scale down of debts, in consideration for a pro-rata scale-down of armaments throughout the world, it would meet with favorable response from the nations of the world?

Mr. LEFFINGWELL. I am only giving you an objective; I am not giving you a solution.

Senator CLARK. I am giving you a very practical answer to that objective. Do you think that the other nations of the world would agree to it? I am certain that would have the overwhelming support of the American people.

Mr. LEFFINGWELL. When you ask for disarmament, you must ask for a plan which would meet universal acceptance. That is to say, no nation, having a next-door neighbor that is disposed toward war, can disarm out of hand in return for the cancelation of debts, unless satisfied that that next-door neighbor is no longer disposed toward war. You cannot take the guns and the billies from the policemen unless you are sure that you have exterminated the gangsters.

Senator **Clark**. Suppose you have a prorated reduction of armaments throughout the world conditioned on a pro-rata scale-down of all debts. Who would be the sufferer from that except the munitions makers and the people who expect to make some money out of a war?

Mr. **Leffingwell**. I am heartily in favor of such a solution.

The **Chairman**. Now, gentlemen, we have skidded a long ways away from our direction and from our schedule.

Senator **Vandenberg**. We have not skidded any further than we have skidded from collecting our war debts.

The **Chairman**. Quite so. I am not saying that this has not all been quite pertinent, but we did have in mind certainly the finishing of the hearing, so far as this banking study was concerned, this afternoon.

It becomes now apparent that we are not going to be able to do it. Perhaps Senator Clark can indicate how long the Committee might be in finishing.

Senator **Clark**. I hope to be through by noon, Mr. Chairman. It is always difficult to tell.

The **Chairman**. You mean if we were to start in tomorrow morning?

Mr. **Lamont**. Would it by any chance be possible to do as you suggested 2 weeks ago, hold an evening session, so as to enable us to get away by midnight?

The **Chairman**. Then, gentlemen, that is what we will do.

Mr. **Lamont**. We have kept ourselves open the last 3 weeks to come down here.

The **Chairman**. We will go until 5 o'clock now and come back at 8 o'clock.

Mr. **Lamont**. Let me ask if that suits my partners and associates here. Everybody seems in favor of it except our friends of the press. We will go to 5 o'clock now and come back at 8.

The **Chairman**. That will be the plan.

All right, Senator Clark.

BRITISH MATURITIES AND SUBROGATION [1]

Senator **Clark**. We have passed over the questions of the financial involvements of the neutral years which created such a situation in the money market after our entrance into the war that the American Treasury was forced to default on its pledges to Congress not to pay off British maturities or obligations incurred before the war.

Mr. **Rathbone**. Was there any such pledge, Senator?

Senator **Clark**. Mr. Leffingwell said in one of his letters the other day, and Mr. McAdoo indicated that he considered there had been a pledge to the Ways and Means Committee, and in the early days I think that the correspondence put in the record yesterday very clearly showed that it was considered that there was a pledge not to advance money of the first and second Liberty loans either for the paying off of obligations prior to our entrance into the war or for the purchase of goods outside the United States.

Subsequently, through the exigencies of the situation, it became necessary, and an opinion was obtained from the Attorney General that it might be done, and those funds were used, not only for the paying off of maturities of obligations entered into before the war, but also for purchase of materials outside the United States.

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[1] See also "Exhibits Nos. 4135–A through 4172", Hearings, Part XXXII.

Mr. **Rathbone**. I was not in the Treasury at the time, but I thought the papers that were put before the committee yesterday indicated very plainly that there was not any such parliamentary pledge.

Senator **Clark**. A portion of that put before the committee yesterday indicated very clearly that Mr. Leffingwell, one of the responsible officials of the Treasury Department, and Mr. Crosby, the Acting Secretary, and at a later time I think Mr. McAdoo himself, indicated that he considered that there had been a pledge.

Mr. **Leffingwell**. Senator, you unfortunately were not here yesterday. I went into that at great length.

Senator **Clark**. I understood that you did; yes, sir.

Mr. **Leffingwell**. If I may have the privilege of going back over it briefly, I would like to do so——

Senator **Clark**. I would be very glad to have you do so.

Mr. **Leffingwell**. Because I think it is so important that I should make clear to you just as clearly as I can what I thought about it.

So far as I can recall, the Secretary was under the impression that at an executive session of the Ways and Means Committee, he had indicated that he was not going to take up these maturities, certainly not if he could help it.

I pointed out, however, that I never was quite clear in my mind how far that went because there never was any record of that session of the Ways and Means Committee.

Senator **Clark**. I understand that to be true.

Mr. **Leffingwell**. That preceded my arrival at the Treasury by some weeks, so that I have no first-hand knowledge of what went on there. But there certainly was enough of that impression that he was under an obligation to hold down such loans that the Secretary of the Treasury made manful efforts to avoid making any loans to take up maturities.

Now, you would know about this.

Senator **Clark**. I propose to put into the record this afternoon somewhat of the manful efforts that Secretary McAdoo made. I agree with you that he did make every effort to prevent those difficulties inch by inch and foot by foot which lead into the situation we have just been discussing of loans which never have been paid back.

Mr. **Leffingwell**. Allow me, before you go further with that, to mention this other thing, because there is no greater authority on the subject than yourself. When the Ways and Means Committee, which was under the chairmanship of Claude Kitchin, who had voted against the war and was the leader of the House, as I recall it, took that bill into the Congress of the United States in April, he made a unanimous report, supported without any dissent by his committee.

This question about the maturities was raised again and again and again and again on the floor of the House. Morgans' name was mentioned; the fear that Morgans' or some other bankers might get some bad loans paid off was mentioned.

At the time that the question came up, Mr. Kitchin and other leaders of the Ways and Means Committee and leaders of the House said something like this, and I would like to read you again, if I may, this very brief colloquy[1] [reading from "Exhibit No. 3017"]:

> Mr. HAYES. The thought I had was this: There is nothing to prevent these foreign governments from taking up these higher-rate bonds bearing, some of them, 6 percent interest, and issuing in lieu these bonds or taking the money and retiring those bonds.
>
> Mr. KITCHIN. There is nothing specifically to prevent that, but I can hardly conceive that that would be done.

There is the promise, you see. There is a parliamentary pledge, "I can hardly conceive that that would be done." But then he goes on.

> If we are going to lend this money to the governments that we are cooperating with to more effectively prosecute this war, why not leave it to them to expend the proceeds in any way which their judgment tells them is the best way to achieve success in the prosecution of this war and not limit or qualify the use of that money?

Then they went on and discussed the effect if some of the money might be spent out of the United States, and he wanted it spent in the United States, and Mr. Kitchin said:

> I will say to the House that the committee has considered what the gentleman has suggested, and we are of the opinion that most of this money that we will loan to the Allies for the purchase of their bonds will, of necessity, have to be expended in the United States.

Then there was more discussion about this question, whether maturities were going to be taken over, and Mr. Mondell, who, if I remember correctly, was the Republican whip at that time, said:

> In reference to the suggestions that have been made by gentlemen that the loan we make may be used by foreign governments to cover obligations already issued, is not this the fact: If you make this great loan, the greatest in all history, it will be for the purpose of sustaining and extending the credit of foreign governments at war with our enemy?
>
> Mr. KITCHIN. That is true.
>
> Mr. MONDELL. We shall accomplish our purpose best if we use these funds in the way by which the cause of these foreign governments will best be sustained and their credit extended, and what if they should refund some of the bonds now outstanding in order to bring them under the provisions and conditions of this bill?
>
> If, in the opinion of these governments, such action would best sustain, extend, and strengthen their credit, will we not have accomplished just what we have set out to accomplish through that method? And therefore why should we be disturbed if, by reissuing or refunding some obligations already existing on foreign governments, they may be relieved through the loans we make? [Applause.]
>
> Mr. KITCHIN. The gentleman is correct.

I say this with great earnestness, Senator, because the great Secretaries of the Treasury under whom I served were conscious of the highest obligation to the Ways and Means Committee and to the Congress and respected that minority opinion, that strong, even impassioned, opinion, that these maturities should not be taken care of.

But the responsible leaders of the House on both sides said, "We must leave it to the President and the Secretary to purchase the obligations of foreign governments, and we must leave it to the Allied governments to use their best judgment."

I shall not burden you with the record; the debate goes on and on and on. The whole tenor of it, sir, is that: We are in this war now. Some of us think we ought not to be there, but we are in this war now. If we can lend money to the Allies in any way that helps them to win the war before our boys get over there, then we must do it; we are not going to obstruct the power of the President as Commander in Chief in time of war to deal with this problem as it rises.

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[1] See supra, pp. 8985 and 8995.

That is my interpretation of the parliamentary situation.

(The document referred to was marked "Exhibit No. 3017" and is included in the appendix on p. 9433.)

Senator **Clark**. Mr. Leffingwell, the phrase "parliamentary pledges" was not my phrase; it was yours.

Mr. **Leffingwell**. Right, sir; perfectly right.

Senator **Clark**. You wrote this in 1918. This was to Secretary McAdoo, the man who is more familiar with it than anybody else [reading]: [1]

> I am disposed to suggest that when you go before Congress in connection with the new bond bill you should make a brief statement of the change in the situation which has developed since the first bond bill, which has made it necessary for us to do two things not then contemplated: First, to provide a certain amount of finance outside of the United States; and, second, to meet the maturities of the Allied governments on obligations in the United States incurred before the United States entered the war. I am confident that the change in the war situation, our own increasing activity, and the great enthusiasm of the people will make this easy to do; and the parliamentary pledges once out of the way, we would be free to deal with the situation as it arises from time to time.

Senator **Clark**. I would like for you to understand this: That I am not criticizing Secretary McAdoo or the officials of the Treasury Department for the change they made in that policy. I cannot fail to believe, from the whole correspondence, the references made in various letters in the Department, and the request made of the Attorney General for an opinion, that the Treasury Department itself believed that pledges had been made to the Ways and Means Committee that the law would not be construed in such a way as it was finally construed.

Mind you, there was no specific provision in the law, which the debate indicated. But the purpose of this study and this investigation is to indicate that the exigencies of the situation after we got into the war forced a course of action which was not, to say the least. contemplated by the Treasury Department as late as the passage of the first Liberty Loan act.

That is the purpose of all the studies that this Committee has made, to indicate the step-by-step involvement, financially and morally, which led us into the war, and which has led to our present deplorable state of depression. I am not saying for a minute that I might not have done what Secretary McAdoo did, or what other officials of the Treasury Department did, if I were faced with a similar situation.

Mr. **Leffingwell**. I appreciate your expression, but I want to supplement your reading of that memorandum with a reading from the hearings before the Ways and Means Committee on the fifth Liberty Loan bond, which shows, I believe conclusively, that the Treasury did in fact explain the situation to the Ways and Means Committee, if not sooner, then later, and perhaps sooner, although the record does not show it [reading from "Exhibit No. 3017"]:

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[1] Previously entered as "Exhibit No. 2782", see supra, p. 8994.

> The **Chairman**. Some of the committee, and I am among the number, would like to know, if you can tell us, how much of the loans we have made to the Allies (and we have made about $8,000,000,000 in round numbers) was used by the Allies to pay their bonds, notes, or indebtedness to others than the United States.
>
> Mr. **Rathbone**. You mean to pay their bonds issued in the United States?
>
> The **Chairman**. Yes; to pay individuals they owed in the United States, or bonds they owed to other countries.

Then Mr. May, who was on the Treasury war-loan staff, says [reading]:

> On December 31 it was $394,000,000. That is the total they had paid off.

Then we went on, Mr. Leffingwell, Mr. Rathbone, and Mr. May, to explain that the Allies had credits growing out of their dollar balances for francs and pounds, etc., and that they had accounted to us for expenditures, which Mr. May put at $1,600,000,000 in excess of the amount of our loans.

The Ways and Means Committee passed the recommendations of the Treasury and renewed and extended the authority of the Treasury to make foreign loans on that report.

Senator **Clark**. There has been no controversy. It was necessary for the Nation to back up whatever the Treasury had done in that regard, because after the state of war developed, as I propose to point out, we drifted from one situation to another.

I want to take up this matter of this ship money, which I believe was discussed during my absence.

The ship money came out of an agreement—it was called ship money because it was referred to in the correspondence very many times as ship money—by which the United States agreed to pay to England and to the Cunard Line, and other parties to the agreement, approximately $80,000,000 for ships which had been received in this country after we got into the war. Is that correct?

Mr. **Leffingwell**. That is correct. I do not remember the lines.

Senator **Clark**. About $40,300,000 of that sum had been spent by the United States.

Mr. **Leffingwell**. Spent by the United States?

Senator **Clark**. By the United States, had it not? We had a claim for that amount?

Mr. **Leffingwell**. I never heard of that.

Mr. **Brown**. The Treasury account after the period of United States advances shows debits in the amount of $40,000,000 on these ships. The exact proportion is impossible to determine.

Mr. **Leffingwell**. This was a Shipping Board payment.

Mr. **Brown**. The British Government Treasury account shows payment on those ships after the United States advances began in the amount of $40,000,000, so that some of the value of the ships——

Mr. **Leffingwell**. You mean, of ships that were uncompleted and the ultimate cost was $120,000,000?

Mr. **Brown**. No; some of the value of the ships as they stood when they were taken over had been built in them by money borrowed.

Senator **Clark**. The British Government used part of our advances to help build these ships.

Mr. LEFFINGWELL. I never heard of any such thing.

Senator CLARK. The British Treasury account shows that.

Mr. LEFFINGWELL. Can you show me that?

Senator CLARK. I will be glad to produce it and show it to you, Mr. Leffingwell.

In any event, the United States felt that in view of the possible interest growing out of the situation and in view of the settlement, the money should be applied either to reduce the advances being made by the United States to Great Britain or spent to apply on this maturity of February 1, 1918. That is correct, is it not?

Mr. LEFFINGWELL. Senator, I explained yesterday my two positions in the Treasury overlapped this period, and the views of the Treasury during the earlier period are expressed in the published documents. I am not very familiar with every phase of it.

Senator CLARK. I am not trying to infer anything you do not remember, Mr. Leffingwell.

Mr. LEFFINGWELL. I want to say this, that what happened was that Secretary McAdoo asked to have subrogation in respect to the securities which were pledged to secure the demand loan, if the proceeds of the ships were applied upon the demand loan. He asked for that and he asked for it repeatedly.

Senator CLARK. That is perfectly true. To begin with the question was whether this $80,000,000 which the Shipping Board was paying to the British Government should be used to reduce the advances which we were being called on to make to the British Government or to apply on those maturities of February 1, 1918, for obligations preceding our entrance into the war, or, as the British Government desired to do, to pay off a portion of the demand loan.

Mr. LEFFINGWELL. I think that the Secretary, so far as I can recall the record, and as far as I can remember anything about it—and my memory is not complete, because most of the early part of those discussions preceded my connection with the affair—always conceded that this was British money owing by the United States to Great Britain, and that he could not interpose an objection to the use by Great Britain of that money for whatever purpose the British desired to use it.

Senator CLARK. In that case, Mr. Leffingwell, what would be the basis of Secretary McAdoo's demand for subrogation; if it was British money he was not entitled to subrogation?

Mr. LEFFINGWELL. That was not his conclusion.

Senator CLARK. His contention was that since during the period of these British expenditures on the ships after our entrance into the war, the bulk of British dollar revenues on loans from the United States, a large portion of the value of these ships, was already loaned in the United States, therefore we ought to have some sort of subrogation?

Mr. LEFFINGWELL. I never heard of that before.

Senator CLARK. What did you understand was the basis of Secretary McAdoo's demand for subrogation, just an arbitrary demand?

Mr. LEFFINGWELL. There is no indication of that in the papers that I have seen, and I never heard of it before this afternoon. The basis of it, I think, was that he was most reluctant to deal with the demand loan and most reluctant to deal with the February 1 maturity, and I think he thought that having regard to the fact that he must concede the payment of this ship money as the British demanded, and persistently demanded it should be used on the demand loan, and as at the same time he was being asked to meet the February 1 maturity, it was perfectly proper and orderly and suitable for him to suggest, as he did suggest, that he be granted subrogation with respect to the payments made on both.

But you will recall, Senator, when it came down to the February 1 maturity, time got very short, and most of this correspondence went by cable back and forth by cable between Secretary McAdoo and the Chancellor of the Exchequer, Bonar Law, and got down to January 28 with no agreement reached.

Senator **Clark**. Yes; I am getting to that in detail. I am going back now to the original question and as to what Secretary McAdoo's contention was as to his right of subrogation.

Mr. **Leffingwell**. I am trying to explain to you, because I do not want you to think he ever made consciously an arbitrary or unreasonable suggestion. The reason why it was a reasonable suggestion——

Senator **Clark**. I think it was a very reasonable suggestion, and that is the reason I am trying to lay the foundation here.

Let me start in with reading a portion of a letter from Lord Reading, which I offer as committee exhibit 1 in this study.

(The document referred to was marked "Exhibit No. 3019" and is included in the appendix on p. 9444.)[1]

Senator **Clark**. I will read the second paragraph [reading]:

> In regard to the reimbursement to the British Government——

Mr. **Leffingwell**. What is the date of that, Senator?

Senator **Clark**. That is dated November 1, 1917, at 2315 Massachusetts Avenue, Washington, D. C., to Secretary McAdoo from Lord Reading [reading from "Exhibit No. 3019"]:

> In regard to the reimbursement to the British Government of sums expended on ships which the United States Government is to acquire, I fully agree that the question of the application of these funds should be discussed with you. It is certainly not the desire of my Government to borrow more than is absolutely necessary to meet its essential requirements in this country. I should, however, point out that from the first it has been assumed by my Government that any moneys reimbursed in respect of its expenditures on ships would be applicable to a special purpose, viz, the reduction of the call loan or overdraft which originally stood at close on $400,000,000, and I have always understood that the matter was discussed with you on this basis.

A few days after that, Mr. Lamont sent a cablegram from London to Morgan, New York, which reads as follows:

> 44748. Denkstein. For your confidential information American Mission is urging Lord Reading and me to devise some method of new security issue to take up British note issue maturing New York February 1. I have explained to Mission utter impossibility in my judgment of any such operation unless security markets completely change, which does not seem likely. I believe Mission now agrees with me in this judgment. However, please cable whether you think any 1-year security could be devised which, under conditions as they exist today, could be sold and if so at what cost to British Treasury.—T. W. **Lamont**.

(The document referred to was marked "Exhibit No. 3020" and appears in full in the text.)

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[1] There was no exhibit marked "No. 3018."

Senator CLARK. Now, I will read a cable from Mr. Lamont to Morgan, New York, dated November 16, 1917:

> 44774. My 44748. Denkstein. Believe American Mission actuated chiefly by not unnatural desire to curb Allied expenditure, but perhaps difficult for them to comprehend entirely the unfortunate sentimental effect which I believe such an attempt would produce, even if it were possible to force it to a comparatively successful conclusion.
>
> Cravath rather insistent that could be accomplished through some group of banks that we might form and possibly he may make inquiries elsewhere, though I do not think so.
>
> I called their particular attention to the probable injury to future United States financing, if question of British ability to pay is raised. Believe American Mission perfectly reasonable and will not adhere to present position if convinced of both impossibility and inadvisability of step suggested, and hope I so convinced them.
>
> Wish, however, to be prepared for any further questions and will therefore appreciate full expression of your personal views alone.
>
> Have you conferred with du Ponts concerning renewal December 15 maturities? T. W. LAMONT.

(The document referred to was marked "Exhibit No. 3021" and appears in full in the text.)

Senator CLARK. In this connection I offer committee exhibit 4, cablegram No. 55633, to Mr. Lamont in London, under date of November 16, 1917.

(The document referred to was marked "Exhibit No. 3022" and is included in the appendix on p. 9445.)

Senator CLARK (reading from "Exhibit No. 3022"):

> Agree with you in belief it would be impossible to make arrangements now that would be acceptable or, even if accepted, would be wise in general situation. Will discuss the matter with all partners on their return Monday.

I call your attention again to the suggestion which runs throughout this correspondence, the suggestion in "Exhibit No. 3021", that if the banks in the United States do not care for this financing the United States will have to undertake the loan for the purpose of saving its own credit. That was your opinion, was it, Mr. Lamont?

Mr. LAMONT. Oh, Senator, I think you stress that cable message of mine too much.

Senator CLARK. The same view appears so constantly, both from the correspondence of various of these officials and from the correspondence of Morgan & Co., and from the recognition of various Treasury officials, including Secretary McAdoo and Assistant Secretary Crosby and Mr. Leffingwell and others throughout the Department and throughout the whole transaction, that that was the situation, of unwilling recognition on the part of American officials that they were forced to do something they did not want to do, because once they did it would be an injury to British credit and thereby an injury to American credit. Is not that true?

Mr. LAMONT. Yes; but might I put it in my own words?

Senator CLARK. Yes; you certainly may.

Mr. LAMONT. Thank you. Mr. Leffingwell explained that this morning and yesterday, I think, when you were not here. But this cable that you have just quoted, of mine, does not suggest any ruin of American credit, which is the word you used a moment ago. It refers simply to the conversations that we had in the spring and summer of 1917 with the Treasury officials when we had hoped that funds would be found for paying off the demand loan, and when they declined to consider the matter. At that time you recall the demand loan had reached a position where we were really not being permitted to sell securities for a time to liquidate it.

The American Government would not undertake the liquidation of it, nor was it timed well, as the Treasury officials told us, to have the British Government come in with an operation at a much higher rate of interest. Those are the conversations that are alluded to.

Senator CLARK. That whole story runs throughout this correspondence on the various phases of the transaction. Here is the $80,000,000 that the British had come into possession of for work, much of which was done after advances by the United States had begun.

We were making advances month by month to them, very large advances from month to month. Yet they say, "All right, we want to pay off this obligation here."

Mr. LAMONT. You are not talking about ship money now?

Senator CLARK. I am talking about the $80,000,000; yes, sir.

Mr. LAMONT. Oh, well, in this cable we were talking about the February 1 obligations, were we not?

Senator CLARK. Yes; I understand, but the two things were going along almost exactly hand in hand, Mr. Lamont. The question of where it would be applied, and the question of subrogation came up in regard to both of them.

Mr. WHITNEY. May I just interrupt here?

If you go back to an exhibit that is already in the record of a memorandum of Mr. Lamont's conversation with the Secretary, back on July 30,[1] there is section G under that that I would like to read, if I may. This is quoting the gist of Mr. McAdoo's and Mr. Crosby's attitude. Then it goes on, A, B, C, and G is this [reading]:

> There is one possible source, said the Secretary, for reducing the loan, and that is $65,000,000, which the Treasury would like to pay Great Britain, being the sum advanced by Great Britain for the building of ships here.

Then he goes on and says these will be turned over to the United States.

So, in other words, at that time, back on July 30, he told Mr. Lamont that there was going to be this purchase by the United States of certain British assets, and he suggested at that time that that sum, the proceeds of a sale of the British assets in this country, might be a source to reduce the demand loan.

So that it was away back on July 30. You see, this is all discussion with the Secretary and Assistant Secretary by Mr. Lamont as to possible means of reducing this demand loan. That was suggested by him back on July 30.

Senator CLARK. Yes; but these two matters were going along at the same time, and the controversy as to subrogation——

Mr. WHITNEY. There was nothing to subrogate on the ships, because they were owned by the British.

Senator CLARK. The $80,000,000 was subrogated.

Mr. LAMONT. No.

Senator CLARK. It was agreed to be subrogated.

Mr. WHITNEY. No, sir. The $91,000,000 was subrogated.

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[1] Previously entered as "Exhibit No. 2824", see supra, p. 9027.

Senator CLARK. I think this correspondence will show that the $80,00,000 was included in the agreement made before the February 1 maturities.

Mr. LEFFINGWELL. Let me explain that to you, because it is just as simple as anything could be. We had it this morning. It will not take me very long. The reason you think we ultimately got subrogation in respect to the ship money is this: The Secretary asked for it. The Chancellor of the Exchequer refused it.

Senator CLARK. As he did with regard to the same thing on the securities.

Mr. LEFFINGWELL. As he did with regard to the February 1 notes. The Secretary found himself obliged to accept the much more limited assurances which the British Treasury tendered to their representatives here which were, in effect, that they would consult the United States Treasury in respect to the use of the securities in this country.

Then in that state of the case Mr. McAdoo telegraphed Mr. Bonar Law, "Well, of course, I am going to take up your maturity on the 1st of February; I am not going to let that go to default."

"But," said Mr. McAdoo to Mr. Bonar Law, "I am very much disappointed that you do not meet my views."

Six days after the maturity and after the advance had been made to the British Government, Mr. Bonar Law came back to the Secretary, evidently having said, "Well, that is a kind of a personal appeal from the Secretary of the Treasury of the United States, who is lending us all this money and helping us in every way he knows how, and I had better meet his views."

And Mr. Bonar Law came back on about the 6th of February——

Senator CLARK. Yes; I am going to put all that correspondence in later.

Mr. LEFFINGWELL. Let me tell you what he said, because it is important, and I have studied this. He said, "I agree to give you a subrogation in respect to the securities for the notes held by the public which mature on the 1st of February; and in respect to those securities and also the securities for the demand loan I agree to be guided by your instructions", or words to that effect.

Senator CLARK. That is perfectly true. I will get the letter in just a moment. That will speak for itself.

But there were three questions, I should say, involved: First was the subrogation in regard to the maturities for February 1st, second, a question of subrogation with regard to the $80,000,000 on the ship money, and then McAdoo made a separate request that as to general securities in this country in excess of those he ought to be consulted.

Those were the three questions involved.

Mr. LEFFINGWELL. But he never got subrogation for the ship money.

Senator CLARK. I think that any fair construction of this correspondence would show that.

I now refer to letter received from Assistant Secretary Crosby at London for the Secretary of the Treasury, dated November 18, 1917.

Mr. LEFFINGWELL. This is from Crosby?

Senator **Clark**. From Crosby to McAdoo. This still has to do with reference to the question of the advances from the United States Treasury for those maturities of February 1. The question was still to the front as to how that would be handled. In this cablegram Crosby clearly shows that it was his opinion that if they were advanced it would simply be a refunding operation instead of a payment out of the Treasury of the United States; that the United States might carry the British until they could refund it out of private sources in this country.

I will read a paragraph on page 2 of the letter, and insert the whole letter in the record (reading):

In an interview today with Bonar Law and Reading, former states that there will be no difficulty in agreeing to higher rates of interest than now paid. States they are charging France and Italy 5 percent, but with indication that rate will be made permanently as high as that which they pay to their public on long-term bonds, this rate now being net about 5½ percent. I urged importance of prompt action by British Government in obtaining loans in neutral countries with the result that special men are to be sent on this business at an early date. Learn from the British Government and from Lamont that renewal of loan of about 95 millions maturing February 1st impracticable, because it is represented by widely scattered obligations in small amounts, nor could a new loan be placed at that time unless market conditions are very much changed for the better. Considering these statements, have urged Chancellor of the Exchequer to revise and if possible reduce other needs for that period. British delegates to council will take all this in consideration at an early date. If on later presentation of urgent need you should decide to advance money for meeting the above maturities, I think there will be no difficulty in obtaining special obligation from the British Government secured by collateral now protecting it, thus laying foundations for direct British loan to our public when market conditions permit.

(The document referred to was market "Exhibit No. 3023" and is included in the appendix on p. 9445.)

Senator **Clark**. So that evidently Mr. Crosby was still considering that this would be a refunding operation rather than a payment.

(The document referred to was marked "Exhibit No. 3024" and is included in the appendix on p. 9446.)

Mr. **Leffingwell**. However, 3 days later, on November 21, in a cable to the Secretary of the Treasury—I am now reading from the State Department publication of Treasury Papers, "Foreign Relations of the United States, 1917, supplement 2, volume 1"—he says [reading from "Exhibit No. 3025"]:

Referring to ship-construction funds returnable to British Government, understand from Treasury here that they prefer application of all of it to overdraft. Have called attention to fact that this leaves their obligations with du Pont and others and their February maturities entirely unprotected. They, however, seem to urge whole amount be applied to Morgan account. Have notified them I would cable you facts. Am uncertain how far you may feel committed to Morgan account by virtue of conversation in your office with Lamont some months ago.

That no doubt refers to the same conversation.

Senator **Clark**. That no doubt refers to the same conversation.

Mr. **Rathbone**. Crosby had no actual facts on the subject.

(The document referred to was marked "Exhibit No. 3025" and is included in the appendix on p. 9447.)

Mr. **Rathbone.** On December 4, 1917, taken from the same publication, which was made some years ago, there is a reply to Crosby from McAdoo, which reads [reading from "Exhibit No. 3028"]:

> Treasury 19. Willing that funds paid British Government by Shipping Board should be applied to Morgan overdraft, but insist upon subrogation in respect to proportionate value of selected collateral.

Senator **Clark.** That is precisely what I understand to be his contention.

Mr. **Rathbone.** That is what he tried to get.

Senator **Clark.** We will go on and come to that in a moment.

Coming back to committee "Exhibit No. 3023", it seems to me there are two points. The loan was convertible into 20-year issues, was it not?

Mr. **Whitney.** Yes, sir.

Senator **Clark.** The loan maturing February 1. Was it ever suggested that the Morgan Co. underwrite the conversion, as they did the equally scattered 2-year notes of this issue later?

Mr. **Lamont.** I do not remember, Senator. If any suggestion like that were made, its acceptability of course would depend upon conditions.

Senator **Clark.** I understand that; but it is clearly indicated by Secretary Crosby in the last sentence, which I will read, that he anticipated this would be a refunding operation, providing the money was advanced by the Treasury, rather than a payment out of the Treasury, which it subsequently turned out to be, and I am asking you as to whether any suggestion was made as to refinancing by Morgan & Co. as a 20-year loan, rather than on 2 years?

Mr. **Lamont.** What do you think, Mr. Whitney?

Mr. **Whitney.** I think it was considered. The suggestion which Mr. Lamont made, as I remember it, was a renewal for 1 year, and he asked from London about it, and the idea was it would be convertible. A year after the war was over, the prices of the bonds were such that you could force the conversion and make an operation of it. At that time the notes were selling at a point where that was not practicable. That was included in the suggestion when Mr. Lamont, of course, there suggested as to whether it would be feasible to renew it by a 1-year note.

I do not know whether that answers your question, because I happened to be abroad myself, but I know the suggestion was made, and they considered it was not possible. Do I make it clear?

Mr. **Lamont.** Senator, before they replied to my inquiry, they undoubtedly canvassed every possible avenue to give me an adequate response.

Mr. **Whitney.** The market was not such as to permit.

Senator **Clark.** I understand you were advising both the British Government and the Treasury at that time that the market was not such that you could float another issue, but was there any suggestion as to what the refunding terms should be, or as to when it would be made, as indicated in Mr. Crosby's cablegram to McAdoo?

Mr. **Lamont.** Undoubtedly every avenue, as I said, Senator, was canvassed in New York before the reply was given to my cable, and the market conditions were found impossible. I have no doubt that they canvassed every possible avenue.

Mr. **Leffingwell.** Senator, as I recall it—and I suppose you will be reading it into the record—as I recall it, when Secretary McAdoo presented the suggestion for the establishment of a credit to meet this maturity to the President, for his approval, as all credits were submitted, he stated, if my memory is not very far wrong, that he had satisfied himself that a refunding issue could not be made upon this market except on terms which would reflect upon British credit and interfere with the successful flotation of the United States Government's own bonds.

My mind does not carry it over at the time as to just what steps he took to satisfy himself on that.

Senator **Clark.** I can readily understand that.

Mr. **Leffingwell.** But it is evident from that very formal communication to the President, that he did satisfy himself.

Senator **Clark.** Now I offer committee exhibit 6, being a memorandum taken from the files of the Treasury Department, and it does not indicate by whom it was written.

(The document referred to was marked "Exhibit No. 3026" and is included in the appendix on p. 9447.)

Senator **Clark.** That cable reads [reading]:

> Mr. Crosby first suggests that in case it should be decided to furnish the funds for meeting these maturities, the corresponding collateral should be subrogated and that the British Government reduce its needs for that period. Later, he suggests that the reimbursements to the British Government by the Shipping Board should be applied for this purpose and for taking up $13,000,000 in notes to du Pont maturing December 15th and $17,800,000 maturing March 15. Later, he advises that the British Treasury desires to apply such funds for the Morgan overdraft. I notice from one of Lord Reading's letters last month to the Department that he understood that the negotiations for taking over the shipping contracts were carried on with the understanding that the British Government would apply the reimbursements to the Morgan overdraft.

Senator **Clark.** I now read "Exhibit No. 3027", being a letter from Mr. Leffingwell to Mr. Blackett, dated December 5, 1917, which is offered for the record with appropriate number [reading]:

> Dear Mr. Blackett: Referring to Lord Reading's letter of November 1 concerning the 400,000,000 call loan or overdraft: For your information the Secretary has cabled Mr. Crosby to the effect that he does not object to the use of any moneys, which may become payable to the British Government for ships acquired by the United States Government, toward the reduction of this overdraft, but in that case the United States will desire to be subrogated to the rights of the British Government with respect to a proportionate value of the collateral, to be selected.
>
> I am, my dear Mr. Blackett,
>
> Very truly yours,

(The document referred to was marked "Exhibit No. 3027" and appears in full in the text.)

Mr. **Leffingwell.** You have also, have you not, the Secretary's cable which that letter was reporting to Blackett? That cable gave at first hand the same advice to Secretary McAdoo's representative abroad, who was in communication with the British Chancellor of the Exchequer.

Senator **Clark.** If you have it there I would be very glad to have you read it, Mr. Leffingwell.

Mr. **Leffingwell.** What is the date?

Senator **Clark.** The date of your letter is December 5, 1917.

Mr. LEFFINGWELL. That is there. It is in the same State Department publication, on page 42 in the little pamphlet that I sent up to you.

> December 4, 1917. For Crosby from McAdoo. Willing that funds paid British Government by Shipping Board should be applied to Morgan overdraft but insist upon subrogation in respect to proportionate value of selected collateral. Have in mind selecting Argentine collateral with a view to use in Argentina to relieve exchange situation.

Then it goes on about the du Pont and maturing notes.

That sentence about Argentine collateral, Senator, is significant, because it shows what the Treasury was working towards, and how the two things, subrogation and this inferior right in respect to the use of British or French collateral in this country merged into each other, and while we had the rights of a creditor, or the right to become subrogated in respect to the subrogated securities, we also had the rights with respect to the subrogated securities and the unsubrogated securities indicated by that reference to the Argentine collateral, that is, that the Treasury was seeking not merely some collateral security for a commercial loan but were seeking a broad plan looking towards meeting interallied finance requirements throughout the war.

Senator CLARK. Mr. Leffingwell, I cannot read this language, admitting that the Secretary changed his mind about the condition later, I cannot read this language in any other way than that the statement of Secretary McAdoo that that $80,000,000 would apply to the demand loan was conditioned on subrogation.

Mr. LEFFINGWELL. As to this point.

Senator CLARK. He said:

> Willing that funds paid British Government by Shipping Board should be applied to Morgan overdraft but insist upon subrogation in respect to proportionate value of selected collateral.

(The document referred to was marked "Exhibit No. 3028" and is included in the appendix on p. 9448.)

Mr. LEFFINGWELL. Quite right.

Mr. RATHBONE. Then in fact you would agree——

Senator CLARK. I am referring to Mr. McAdoo's statement.

Mr. RATHBONE. There was not an agreement at that time.

Senator CLARK. He said he was willing.

Mr. RATHBONE. He said he was willing.

Senator CLARK. As you suggest, that word of Mr. McAdoo, "willing", was subject to subrogation at that time?

Mr. RATHBONE. At that time.

Senator CLARK. That is all this exhibit was intended to establish.

Mr. LEFFINGWELL. The only point I wanted to make was to call attention to the relation between subrogation, which was one thing, and the use of securities for the support of foreign exchange, which was another thing, and how the two wove themselves together in the mind of the Secretary of the Treasury.

Senator CLARK. I can understand how all the questions are interwoven, and yet I think you will agree that Mr. McAdoo repeatedly stated that the money would be applied in connection with the question of subrogation. I cannot read this language which has just been read here in any other way than his willingness to agree that the

$80,000,000 be applied on the demand loan, which was conditioned on the right of subrogation.

Mr. **Leffingwell.** He asked again and again for subrogation, and finally failed to get it.

Senator **Clark.** That is the point of the whole course of action, Mr. Leffingwell, that Secretary McAdoo at the time, when he was shoveling out American money by the millions, literally by millions a month, and in some cases by hundreds of millions a month——

Mr. **Leffingwell.** $500,000,000 a month.

Senator **Clark.** And they asked for security for a particular thing as to the British, and it was said, "It will hurt your credit", and he was forced into a course of conduct that has brought us to the situation where we are unable to collect any substantial part now of the sums which we have advanced.

Mr. **Leffingwell.** Let me offer a suggestion there, because you are interested in these things, and the interesting questions which you have asked me before lead me to refer to that.

One reason why we had every reason to think that in the last analysis the way for a great creditor country to deal with its debtors in this particular manner, was this: If a creditor, in the last analysis, declines to pay a debt due by that creditor, clearly and plainly due, except upon conditions imposed against the creditor's will, then he is undermining the basis of credit and his own reasonable expectation of repayment. And it was not a possible thing for Secretary McAdoo, after urging in every way——

Senator **Clark.** I can understand that.

Mr. **Leffingwell.** After urging in every way subrogation, it was not a possible thing for him to maintain it.

Senator **Clark.** Let me say again, Mr. Leffingwell, that I am not blaming Secretary McAdoo, and I am not blaming anybody who was drawn into that particular circumstance, with only two or three outstanding facts or turning points, as I see it, in the whole story of the United States getting into the war. The first essential turning point, to my mind, was the differentiation arrived at in 1914 of loans and credits, which enabled the Allies to build up large amounts of credits in this country, which led to the changed policy with regard to loans which eventually brought about so tremendous a commercial interest in this country in favor of the Allies, before we ever entered into the war.

The next important turning point was the failure of the Allies even to give consideration to the modus vivendi proposed by Secretary Lansing for dealing with the question of armed merchantmen and submarines, which brought up the other side of the problem which drew us into the war.

The third was our actual entry into the war. The fourth was the discovery by the United States that they must finance their then Allies for all the debts contracted, practically before our entrance into the war, and step by step the thing leads on to the present situation.

Mr. **Leffingwell.** Senator, that last one is out of proportion, because every other thing which you have mentioned is a matter of major significance. Whatever view one takes of it, every other one of those four steps is a matter of major significance, but the total amount of loans that we made to the Allies during the war was one-fourth the total cost of the war and of the total amount of loans that we made to the Allies during the war period, those maturities were only 6½ percent.

Senator CLARK. I can understand that.

Mr. LEFFINGWELL. And it is getting things out of their relative importance.

Senator CLARK. No; it is not getting things out of their relative importance.

The CHAIRMAN. Not at all.

Senator CLARK. One step followed another, and the fact that one step followed another was inevitable.

Mr. LEFFINGWELL. Of course, you may think of me as thinking about these things from the point of view of a fellow who became involved in these questions on the 8th of May 1917.

Senator CLARK. Yes; I can very readily understand that.

Mr. LEFFINGWELL. Who had no prior knowledge or interest in the problem of international finance. Looking at it purely from the Treasury's point of view, it was of no such importance as the other three steps. That is all I meant to say.

Senator CLARK. I think the events show it was one of the major turning points. However, I agree with you that it is not of outstanding importance, such as the others I mentioned.

Mr. LAMONT. Senator, I hate to comment even at all, but on the one step you mentioned, you stressed what you are pleased to call the immense importance of the pre-war loans upon our economy, population, and so forth. There again, if I may, I would like to call your attention to the views which I have expressed in the record before, namely, that in the neutral years the four great Allied nations bought from this country $7,000,000,000 worth of goods. Of that amount $1,000,000,000 only was financed by means of publicly issued loans and another $1,400,000,000 by secured loans.

Senator CLARK. Of course, that is perfectly true, Mr. Lamont.

Mr. LAMONT. If I may finish——

Senator CLARK. Yes, sir.

Mr. LAMONT. So that the total was only one-fifth of their entire purchases. In that respect I would not think that considering the very moderate distribution of those, in the way of the number of investors—and I would not agree with you nor should I expect you to agree with me necessarily—that that one factor in itself was a very considerable influence.

Senator CLARK. Mr. Lamont, it has always been my opinion, and I think this record conclusively shows, that the question of the loans and the question of those credits having to do with trade and commerce, and the question of trade itself, acted on each other necessarily. The tremendous volume, as was repeatedly said, the tremendous volume of trade which had grown up made necessary large credits. The existence of the credits and the necessity for financing the Allies in this country, all the reasons cited by Secretary McAdoo and Secretary Lansing and by everybody else who advocated a change in the loan policy of the Government, urging on President Wilson until he changed his loan policy; the tremendous stake in the game that the United States had undoubtedly had a great deal to do with influencing public sentiment in this country. All these elements work interchangeably on each other. I will never believe that the question of these loans was entirely responsible for it, or the commercial development connected with them, but they contributed to our trade interest in the Allied success and to the creation in the minds of a great many people, and I think very properly, that the prosperity of this country was absolutely tied up with Allied success, which was repeatedly asserted.

Mr. Chairman, I see it has now come to 5 o'clock.

The CHAIRMAN. If you are willing, Senator, we can take a recess until 8 o'clock this evening.

Mr. LAMONT. Mr. Chairman, may I inquire from you and Senator Clark, if there is any chance of our not finishing tonight, we would prefer to sit here with you until 6 o'clock and have a briefer recess.

The CHAIRMAN. I am afraid if we would stay, we could not finish by 6 or 6:30.

Mr. LAMONT. Will we be sure of getting away tonight, by sitting another hour now and having a briefer recess?

The CHAIRMAN. Some of us have commitments for the dinner hour tonight that makes that quite inconvenient, and since we have had a very definite understanding with respect to returning at 8 o'clock, I think we had better take our recess now and come back then.

The committee will be in recess until 8 o'clock tonight.

(Thereupon, at 5 p. m., a recess was taken until 8 p. m. of the same day.)

EVENING SESSION

The committee reconvened at 8 p. m., pursuant to recess.

TESTIMONY OF THOMAS W. LAMONT, R. C. LEFFINGWELL, AND ALBERT RATHBONE—Resumed

The CHAIRMAN. The committee will be in order.

Senator CLARK. Mr. Chairman, just before the recess was taken some of the witnesses and myself had rather wandered off into a discussion of our own views as to war, investigations, bankers' loans, and commerce and trade during the war. In order that these witnesses may get away and catch their train, I am going to be as brief as possible and return immediately to the subject under discussion, namely, the events leading up to the payment by the United States Treasury of the maturities of the United Kingdom loan falling due on February 1, 1918, together with the associated subjects which, as I have said from time to time, was the money being applied on the demand loan.

Referring to committee exhibit 8, which I will insert in the record in full but read only a portion of, being a communication from Mr. Crosby in Paris to Secretary McAdoo in Washington, of which I will read the pertinent paragraphs showing the progress of the negotiations at that time.

(The document referred to was marked "Exhibit No. 3029" and is included in the appendix on p. 9448.)

Senator **Clark**. That communication reads in part as follows [reading]:

> In response repeated inquiries from British Treasury, have said am not authorized offer any encouragement except ship money that money will be provided for overdrafts including Treasury bills and February 1 maturity.

I think it may be agreed from the previous testimony, gentlemen, that there was an effort being made on the part of the British Government to have the funds supplied for the payment of the February 1 maturities and also funds supplied progressively for the payment of the demand loan. That is true, is it not, Mr. Lamont?

Mr. **Lamont**. Certainly, I think on the first part, the demand loan, that they ceased to press the American Treasury after the money had been applied.

Senator **Clark**. No, sir. I think that will appear.

Mr. **Leffingwell**. What is the date of this letter?

Senator **Clark**. This is January 10, 1918.

Mr. **Leffingwell**. Yes, sir.

Senator **Clark**. From Crosby in Paris to McAdoo in Washington. It states in part [reading from "Exhibit No. 3029"]:

> In response repeated inquiries from British Treasury, have said am not authorized offer any encouragement except ship money that money will be provided for overdrafts including Treasury bills and February 1 maturity. In response to requests for suggestions as to how these obligations to be met, have said it seems to me to be a problem which must be worked out by British Government and their bankers with such cooperation as the United States Treasury can give. Have suggested that British Government should, if necessary, urge bankers to release them from promise to apply ship money to overdrafts so that it can be used for February 1 maturity. Bonar Law suggests that small amount of gold, roughly estimated by him now at $5,000,000, can be brought down from Canada to aid in February 1 settlement. Am also informed that Danish loan to British of $25,000,000 now available in New York in part and balance by instalments. Chancellor has expressed hope that inasmuch as pledged collateral, even at present market values, exceeds overdraft Treasury bills and February maturity combined, some way can be worked out whereby, with aid of ship money, Danish loan, and Canadian gold, a new secured loan may be established. Have said that this can only be done by negotiations at New York and Washington, and if additional cash advances required from Treasury, it would probably involve diminution in January and February loans for other purposes.

The rest has nothing to do with this particular matter.

At that time, apparently, Secretary Crosby thought that a British war issue was not impossible in this country, considering the great amount of collateral on hand. Is that correct?

Mr. **Lamont**. I do not remember what his views were.

Senator **Clark**. Would not that be your deduction from the letter? You do not have to answer that if you do not want to.

Mr. **Lamont**. I did not draw any particular deductions from that. I thought Mr. Crosby was giving his view without having reached any definite conclusion.

Senator **Clark**. I think the record shows that he was undoubtedly contemplating a new issue, secured in the various ways he suggested.

Mr. **Leffingwell**. Senator, Mr. Crosby was sent over to Europe by Mr. McAdoo about the latter part of October, as I remember the date, and his task there was to allocate the loans which we made, as head of the Commission, and at that time he was out of touch with things here.

Senator **Clark**. He was in touch with the situation, as the cable shows, and was reporting to his senior.

Mr. **Leffingwell**. He was reporting it to his chief.

Senator **Clark**. I offer committee exhibit 9, being a telegram of January 19, 1918. It reads as follows [reading]:

> In all our discussions the understanding has been that this $94,000,000 (to meet February maturities) will be a first installment of a larger amount and that ultimately whole of overdraft, including ripe bills, might possibly be paid off. Secretary of the Treasury is not willing to make a prior commitment as to further advances and question as to whether any will be made depends to a considerable extent (a) on general banking situation; and (b) on political reception of the advance now under consideration.
>
> (In pencil): Above is Treasury's latest information on the scope of the new loan.

(The document referred to was marked "Exhibit No. 3030" and is included in the appendix on p. 9450.)

Senator **Clark**. In other words, the political reception of advances made would depend on how the American people would take to the idea of "bailing out the bankers."

Mr. **Leffingwell**. Whose telegram is it?

Senator **Clark**. It is a memorandum taken from the Treasury files here, but evidently sent to Cravath in London, because it is a London Treasury memorandum, and it records the conversation reported to London by Sir Hardman Lever.

Mr. **Rathbone**. It was Sir Hardman Lever's view of the situation.

Senator **Clark**. That is undoubtedly true.

I now offer Committee exhibit 10, which it is not necessary to read, being a memorandum from Mr. J. M. Keynes to Mr. Cravath, as to the amount of the funds under consideration, Mr. Cravath being then in London.

(The document referred to was marked "Exhibit No. 3031" and is included in the appendix on p. 9450.)

Senator **Clark**. I also offer Committee exhibit 11——

Mr. **Leffingwell**. Mr. Keynes being of the British Treasury in London.

Senator **Clark**. Yes, sir; I should have explained that. It is written on the letterhead of the British Treasury.

I offer Committee exhibit 11, of which I will read the pertinent part and offer the whole for the record, and, Mr. Lamont, you may read any other part of it you please. This is a telegram from Mr. Lamont to Morgan & Co. in London: Morgan Grenfell & Co., dated January 19, 1918.

(The document referred to was marked "Exhibit No. 3032" and is included in the appendix on p. 9450.)

Senator **Clark**. That cable of Mr. Lamont's reads, in part, as follows [reading from "Exhibit No. 3032"]:

> Since T. W. Lamont's return from abroad, he and A. M. Anderson have spent much time in Washington in following up with United States Treasury the matter of British call loan and February 1 maturities, so fully discussed in London. Federal Treasury appreciates bad effect upon American money market of having this call loan continue indefinitely, and it has therefore been frankly desirous of arranging means to effect reduction and eventual cancelation of loan.
>
> We have now agreed to suggestion made by the Treasury under which we purchase next week $150,000,000 United States Treasury 4-percent certificates due June 25 next, proceeds of $86,000,000 of which will be turned over to Brit-

> ish Treasury to be applied to that extent in reduction of its call loan. In order to carry out this plan we and our associates are obliged as you can see to purchase an amount of certificates greatly in excess of amount to be applied upon the call loan. This is the consideration which the Federal Treasury receives for lending its cooperation to the plan.

Then on the third page of this communication it states [continuing reading]:

> Federal Treasury has been in conference with British Treasury authorities here in regard to plans to utilizing to best possible mutual advantage such British-owned securities now held in its country, and free from pledge, subject, of course, to all conditions under which securities are borrowed from owners and to any engagements British Government has undertaken. Discussion of this matter has not been within our province, but we are convinced that all Federal Treasury desires is generous cooperation on part of British Treasury in working out method for handling increasingly heavy allied finance demands here, including those which result from purchases in neutral markets. You will not misunderstand us, we are sure, when we say that we are convinced that British Treasury can well afford to be very broad in its attitude on this point. Fortunately, relations between Sir Hardman Lever and Federal Treasury are on such basis that all such questions can be handled—we are convinced—without difficulty as they may arise.

So that by that time you indicate that the United States Government had advanced to the point where it was not only consenting to pay the British maturities as they arose, but consenting to finance British purchases in neutral countries outside the United States?

Mr. **Rathbone.** That was Mr. Lamont's opinion.

Senator **Clark.** That was Mr. Lamont's opinion. He was very intimate with this matter.

Mr. **Rathbone.** Not for the Treasury.

Senator **Clark.** That was your opinion, was it not, Mr. Lamont?

Mr. **Lamont.** Certainly it is my opinion, expressed in this cable, Senator.

Senator **Clark.** Mr. Rathbone, it is true that about that time began the financing of British purchases in neutral countries outside the United States?

Mr. **Rathbone.** I do not know.

Senator **Clark.** So that Mr. Lamont's opinion was correct?

Mr. **Lamont.** I said discussion of this matter was not within my province, you know.

Senator **Clark.** I understand, but a little later I find you discussing matters of that kind as in your province.

That was a fact, Mr. Rathbone or Mr. Leffingwell?

Mr. **Rathbone.** When the advances were first made for neutral purchases——

Senator **Clark.** I am not interested in the dates, but I am interested in knowing if at this time the United States did not begin to finance British purchases outside the United States.

Mr. **Rathbone.** Through the exchange?

Senator **Clark.** No; these were direct advances from the United States Treasury, Mr. Rathbone. You will recall that from that time on that there was a constant matter taken up that the United States financed Allied countries in their purchases in neutral countries, which marked a departure from the original policy of the Government.

Mr. **Lamont.** Senator, you said for me to read any part of the cable.

Senator **Clark**. I would be very glad to have you read it all, Mr. Lamont. I did not read it all for the purpose of saving time.

Mr. **Lamont**. I would like to read a part of it, so that the former Treasury representatives can hear it [reading from "Exhibit No. 3032"]:

> Federal Treasury has been in conference with British Treasury authorities here in regard to plans to utilizing to best possible mutual advantage such British-owned securities now held in this country. * *. *

Senator **Clark**. Yes, sir; that is precisely what I read.

Mr. **Lamont**. I know it. The matter of the purchases in neutral markets goes back to that on which Mr. Leffingwell was testifying this afternoon in connection with various matters.

Mr. **Rathbone**. That was the use of the British securities to aid in the neutral markets and not the American securities. I do not recall that any advances were made to Great Britain to enable them to finance in neutral countries, unless it was through the support of exchange.

Senator **Clark**. That is not what Mr. Lamont says. He states [reading from "Exhibit No. 3032"]:

> * * * but we are convinced that all Federal Treasury desires is generous cooperation on part of British Treasury in working out method for handling increasingly heavy allied finance demands here, including these which result from purchases in neutral markets.

Mr. **Lamont**. That is referring to the topic indicated in the first part of the cable, Senator, having to do with British securities.

Senator **Clark**. Do I understand that any of you gentlemen deny that through advances to the British Government from time to time, from this period on, or a little before this period, British purchases in neutral countries were financed by the United States Government?

Mr. **Rathbone**. They might have been through the support of exchange. I do not recall any instance where they were helped in neutral markets by the United States advances.

Mr. **Leffingwell**. Senator, may I attempt a comment on that?

Senator **Clark**. Yes; I would be glad to have you, Mr. Leffingwell.

Mr. **Leffingwell**. Because I do not consider this is in connection with the question which you asked.

Senator **Clark**. It is rather an incidental matter, to which I was attracted by the language of Mr. Lamont's cablegram.

Mr. **Leffingwell**. I do not know about it because I have not given any attention to it before, but I think probably what it reflects is what I call in my thought about this subject the secondary arrangement which was made to release other securities that were not subrogated; and that arrangement contemplated the use of those securities in neutral markets under an agreement between the United States Government and the Government of Great Britain, and later on between the Government of the United States and the Government of France, in such a way as to facilitate purchases made by Great Britain, or the United States, and to protect the exchanges of the several associated governments in those neutral markets in which we, because of the purchases of our army quartermasters, or they, because of their similar purchases, had occasion to make purchases.

Now I think the answer to the question which you asked about Mr. Lamont's understanding of the matter is that Mr. Lamont was misinformed, because the Treasury was not, as he was convinced at that time, asking only generous cooperation but, in addition, it was asking for subrogation.

Senator **Clark**. There is no question about that.

Mr. **Leffingwell**. In respect to the February 1 maturity.

Senator **Clark**. I was just coming to that.

Mr. **Leffingwell**. So that I think Mr. Lamont's information, which was no doubt acquired from Sir Hardman Lever, and perhaps reflected Sir Hardman Lever's opinion, was incorrect.

Senator **Clark**. The United States Treasury was undoubtedly asking for generous cooperation, when they were expending millions and millions of dollars a month, but they were also asking for subrogation, as shown in committee exhibit 12, dated January 22, 1918, which is from Secretary McAdoo in Washington to Assistant Secretary Crosby in London, which I offer for the record.

(The document referred to was marked "Exhibit No. 3033", and is included in the appendix on p. 9451.)

Senator **Clark**. That letter reads in part as follows:

> Treasury No. 59. I have indicated my readiness to assent to the use, out of our advances to the British Government, of a sum of about $93,000,000 required for the purpose of paying off the 5½-percent secured notes maturing February 5, as well as my assent to the use of the ship money in retirement of the overdraft.

I presume wherever the word "overdraft" appears, Mr. Lamont, it refers to what you call the demand loan?

Mr. **Lamont**. I think so, Senator.

Mr. **Rathbone**. I think there is no doubt of that.

Senator **Clark**. Both the British Treasury officials and others referred to it as an overdraft, but that was explained in the beginning of these hearings as being technically a mistake, and being in your contemplation a demand loan?

Mr. **Lamont**. Quite.

Mr. **Leffingwell**. In London they call it an overdraft, and in New York they call it a demand loan.

Senator **Clark**. Then hereafter, when the word "overdraft" is used here, it means the demand loan [continuing reading from "Exhibit No. 3033"]:

> In that connection, however, I have felt obliged to ask not only certain general assurances in respect to the use of the securities owned by the British Government but also specifically that the United States Treasury should be subrogated to the rights of the pledgees with respect to the collateral released in connection with the payment of the February 1 maturity and on account of the overdraft. As to the latter, I have understood from your cables that no objection would be raised.

That is, Secretary McAdoo said to Secretary Crosby, with respect to subrogation on the matter of the overdraft, he had understood from Crosby's cables that no objection would be raised [continuing reading]:

> I have made it my personal request that my views as to the requirement of expediency in respect to this transaction be assented to . You are fully informed as to the reasons which make me most reluctant to assent to the retirement of this indebtedness, and of the reasons of expediency which lead me to feel that some special sanction should be thrown around the transaction. I

should be glad to have you indicate to the Chancellor of the Exchequer and to any others with whom you may have occasion to discuss the matter that the suggestions which I have made are based upon my judgment as to the best course to be pursued in the interests of the Governments concerned.

That is the 22d of January, which is 8 days before the maturity of February 1.

Now, apparently Secretary McAdoo was also considering at this time the possibility of refinancing this matter through a British loan issue, because in his letter dated January 23, 1918, addressed to the President, of which I will insert the whole but read only the pertinent part in this connection, he says [reading from "Exhibit No. 3034"]:

> In connection with these credits, I should call your attention to the fact that Great Britain has maturing on the 1st of February the unpaid balance, amounting to about $93,000,000, of an issue of 1-year 5½-percent secured notes. I have been very reluctant to permit the repayment of this loan out of advances made by the United States, but I am satisfied that it could be refunded upon our markets in the existing situation only at a rate of interest so high and secured by so great an amount of collateral as would gravely impair the credit of Great Britain and the ability of the United States to carry through successfully its own financing. In connection with the refunding of this indebtedness, I am asking assurances with respect to the collateral securities held by the pledgees and I am asking other collateral advantages for the United States which, in my judgment, make the transaction in every way a wise one.

(The document referred to was marked "Exhibit No. 3034", and is included in the appendix on p. 9452.)

Mr. **Leffingwell.** That letter, Senator, if you read back over the text, as I recall that letter, is limited to the financing of the February 1 maturity and does not suggest in its text any reference whatever to the ship money.

Senator **Clark.** That is perfectly true; and let me explain, Mr. Leffingwell, that the question of the subrogation of the ship money only increases the amount—whether my view be correct or the view of you gentlemen be correct—only increases the amount of the subrogation, because there is unquestionably a subrogation as to the February 1 maturities, and it is really only a question of the amount and the question of the atmosphere surrounding the general circumstances.

I will put in the record, without a discussion, the documents which lead me to believe that, in connection with the language I just read, which would indicate that he also had that in mind.

But so far as the question of subrogation is concerned, the ship money, the question of the ship money, enters in only as to the amount of the subrogation which we had, because, as I say, I think everybody will agree that there was subrogation ultimately as to the maturities of February 1.

Mr. **Leffingwell.** The thought which I wanted to suggest to you, sir, was that in writing this to his own President, he asked for authority to establish a credit to take care of the February 1 maturity, and he himself suggested that division of thought, which is possibly in Mr. Rathbone's mind, and talked about the pledged collateral for that.

Senator **Clark.** The important thing in connection with all this, to my mind, is that by force of circumstances, which were compelling, a very reluctant Secretary of the Treasury was compelled to enter into a course which he had not contemplated originally and which our Government had not contemplated originally; and struggling desperately for something concrete in the matter, as he had done, he was forced step by step throughout these negotiations.

I now offer for the record Committee exhibit 14, being the cablegram from Mr. Lamont to Mr. Grenfell on January 23, 1918, the same date as McAdoo's letter.

(The document referred to was marked "Exhibit No. 3035" and appears in full in the text.)

Senator CLARK. That cable reads as follows:

> 61326. For E. C. GRENFELL: 48630. Sir Hardman Lever has not yet heard from the Chancellor. If you have any inkling as to his attitude we should be glad to hear it. The arrangement outlined to you is not easy to arrange, and we are anxious not to let the present opportunity escape. T. W. LAMONT.

Senator CLARK. Then on January 24, 1918, another cable for E. C. Grenfell from J. P. Morgan & Co., which reads [reading "Exhibit No. 3036"]:

> 61353. For E. C. GRENFELL. 61236. To supplement such information as you may already have on hand, we understand Chancellor of the Exchequer is agreeable to plan which we have worked out for reducing call loan, but fells it impossible adopt all of Federal Treasury's suggestions with reference to handling securities, that being now subject of conference in Washington, D. C.

(The document referred to was marked "Exhibit No. 3036" and appears in full in the text.)

Senator CLARK. I offer a letter from Sir Hardman Lever addressed to Secretary McAdoo, received January 29 and being dated January 25, of which the whole will be printed, but I will read only the pertinent paragraphs.

(The document referred to was marked "Exhibit No. 3037" and is included in the appendix on p. 9453.)

Senator CLARK. That letter reads in part as follows [reading from "Exhibit No. 3037"]:

> I am authorized by my Government to say that in the event of such advance being made by the United States Treasury and applied in reduction of capital liabilities the British Government is willing to undertake that, subject to all previously existing liabilities, and insofar as not inconsistent with its existing pledges and undertakings:
>
> (1) It will refrain, during the continuance of the war, from selling, pledging, or otherwise dealing in the United States of America with any securities owned by or deposited with the British Treasury, except with the approval of the Secretary of the Treasury of the United States of America; and
>
> (2) The British Treasury agrees to cooperate with the Secretary of the Treasury of the United States in facilitating during the course of the war the issue of loans by or, on behalf of, the United States Government, by the use of such British-owned securities as may be owned or controlled by the British Treasury, subject to the limits of such control and to the requirements of the British Treasury in connection with its own prospective financial operations.

Then following this, or probably before it was received anyhow, on the next day, January 26, 1918, Secretary McAdoo cabled Secretary Crosby in London, as follows [reading from "Exhibit No. 3039"]:

> Treasury No. 63, supplementing Treasury No. 59. Informed today that British Government declines to subrogate United States to rights of pledges with respect to collateral released in connection with payment of February 1 maturity and on account of overdraft. British Government assents to request that during continuance of war it refrain from selling, pledging, or otherwise dealing in United States with any securities owned by or deposited with British Treasury except with approval of Secretary of the Treasury. It is, of course,

already in my power to compel this. In lieu of assurance desired that British Government will cooperate with me in lending, selling, or hypothecating such securities, whether in the United States or elsewhere, in aid of the financial requirements of the Government of the United States or of the Allies, the British Government proposes an assurance "to cooperate with the Secretary of the Treasury of the United States in facilitating during the course of the war the issue of loans with the United States Government guaranty by the use of such British-owned securities as may be owned or controlled by the British Treasury subject to limitation of such control and to requirements of British Treasury in connection with their own prospective financial operations." As you know, I have been extremely reluctant to permit our advances to be used to pay off this old indebtedness. You are very familiar with my views in this connection. Nothing but the feeling that this loan could only be renewed, if at all, in our market upon terms so onerous as to reflect upon credit of British Government and to suggest a lack of willingness or ability on the part of the United States to support the British Government induced me to assent in principle to such use of our advances and then only if the British Treasury were willing to place the United States in respect to the collateral in a position approximately as advantageous as it would gladly have placed American bankers in if any could have been found willing to undertake this loan upon any terms. I do not want to make this loan; I cannot make it unless the British Treasury can see its way to meet my views in the matter. I had made arrangements with the British bankers here—

I presume he refers to Morgan & Co. as the British bankers here, does he not, Mr. Lamont?

Mr. **Lamont**. I should think so.

Senator **Clark** (continuing reading):

which would have enabled me to make the advance necessary to meet the February 1 maturity as well as to pay the ship money without infringing upon $500,000,000 a month for Allies for current purposes. These arrangements fail if British Government finds itself unable to meet my views. The situation is very acute because of the near approach of February 1, and, while I shall, of course, do what may be necessary to prevent an actual default on that date, failing their assent to my suggestion, I shall be obliged to insist that any sums advanced for the purpose of meeting the February 1 maturity be deducted from amounts otherwise available for current purposes, which means, of course, that the British Treasury will have to issue a secured loan on our market within a week or two, provided I should be willing to permit such an offering.

In other words, I understand the Secretary to mean there that if he paid off the maturity of February 1, without an agreement of some sort with the British Government, he would then deduct the other advances to be made to the British in the next amount, which would compel the British to float the loan in the American market, if he permitted them to do it.

Mr. **Lamont**. When he alludes to us as bankers, he is alluding to our undertaking to buy $150,000,000 of Treasury certificates.

Senator **Clark**. I presume so; yes [continuing reading from "Exhibit No. 3039"]:

British representatives here offer no encouragement as to bringing in gold from Canada and state that the Danish loan will not be available until April or thereabouts, the part of it already rendered available having been heretofore applied in reductions of the overdraft or of British Treasury bills here. Though the most serious difficulty in this transaction is utter refusal of British Treasury to subrogate in respect to the collateral whether in connection with February 1 maturity or payment on account of overdraft, I am also much disconcerted by the very restricted assurance of cooperation above-quoted with respect to the use of securities here and in neutral markets. I have no reason to suppose that there will be for some time to come a need of collateral security for loans issued with the United States Government's guaranty. You have shared my disappointment at the apparent failure of the British and French Governments to realize the importance of settling their balances in neutral countries by placing securities in such countries. While our loans to Great Britain so greatly exceed the amount of her purchases here, I feel justified in expecting hearty cooperation in lending, selling, and hypothecating securities in the United States or elsewhere in aid of the financial requirements of the Government of the United States or of the Allies. I hope that you will take this matter up with the Chancellor of the Exchequer in your own graceful way and explain to him the limitations of our statutes, both express and implied, and the reasons, with which you are fully familiar, which made me desirous, if in any way possible, to avoid retirement out of our advances of indebtedness now in question.

I presume when he said "the limitations of our statutes, both express and implied", he had reference to the discussions which transpired with regard to so-called pledges. In other words, while there is no express limitation in our statutes against these loans, there had been, for a long time, a belief that there were implied limitations [continuing reading]:

Bear in mind that although the ship money is the result of the purchase of ships belonging to Great Britain this money should properly be applied to cover adverse balances in neutral markets rather than to retirement of preexisting indebtedness. On that account as well as on account of our own political and economic situation feel obliged to request subrogation in respect to the collateral released from proceeds of the ship money as well as in respect to the collateral released in connection with the February 1 maturities. It is of the utmost importance that this matter receive full patient and comprehending consideration from the highest authorities in Great Britain since it seems inevitable that without a satisfactory understanding on this subject the British Treasury will be obliged to offer upon the American market a new secured loan under conditions most unfavorable to this Government and with possibilities of failure.

(The document referred to was marked "Exhibit No. 3039" and is included in the appendix on p. 9454.)[1]

Senator CLARK. Now, with reference to the statement of Secretary McAdoo in that cable, in which he said that the only thing that induced him to consent to these advances in any event was certain things and then only, as he said, "if the British Treasury were willing to place the United States in respect to the collateral in a position approximately as advantageous as it would gladly have placed the American bankers in if any could have been found willing to undertake this loan upon any terms."

That is perfectly true, from negotiations which had gone on before, is it not, Mr. Lamont, that the British would gladly have given Morgan & Co., or any other bankers. the collateral that Secretary McAdoo was demanding in his negotiations? That cannot be doubted, can it?

Mr. LAMONT. I cannot answer a general question of that kind.

Senator CLARK. The negotiations indicate a great desire on their part to float a loan at one time.

Mr. LAMONT. Whenever they had to issue a loan in this country, of course, they furnished the collateral subsequent to October 15, 1915, necessarily through——

Senator CLARK. What I am getting at is, do you think it was unreasonable on the part of Secretary McAdoo toward the British Government to want them to deal as generously with the American Government in the matter, at least at a time when they were receiving hundreds of millions of dollars from the United States, as generously as they would have dealt with Morgan & Co. or other private bankers?

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[1] There was no exhibit marked "No. 3038."

Mr. LAMONT. Not at all; I thought his message was very strong and clear.

Senator CLARK. I thought so, too.

Senator LAMONT. We felt at the time the very same way.

Senator CLARK. I will now offer a cable from Mr. Lamont to Mr. Grenfell in London, dated January 26, 1918, for appropriate number.

(The document referred to was marked "Exhibit No. 3040", and appears in full in the text.)

Mr. LAMONT. This was a message intended for Lord Reading.

Senator CLARK. Yes. It states [reading]:

61473. Denkstein. For E. C. Grenfell. 61353.

If Lord Reading is available, I wish you would show him our 61200 and add the following personal message from me:

I did not notice that heading [continuing reading "Exhibit No. 3040"]:

Message begins: Our hope as expressed towards end 61200 that all questions could be handled without difficulty is apparently not being realized. Without wishing to do any injustice to Sir Hardman Lever, whose capacity and courage have always commanded our admiration, I fear that his attitude in this matter of handling the securities to be released may be somewhat rigid, and that he is failing to urge upon the Chancellor a policy of being extremely broad in its attitude to Federal Treasury on this point. Certainly, I do not wish to urge upon Chancellor any attitude not comporting with the dignity of the British Treasury, yet I am perfectly certain that the best policy for Treasury to adopt would be, if expressed in words to the Federal Treasury, the following:

"We are, of course, completely dependent upon you for our monthly advances; therefore, whatever requests that you make in regard to the handling of our securities in America as may be released in the future must be acceded to by us, and we are very glad to meet your ideas, knowing perfectly well that you will not wish us to do anything unworthly of our own general position. Certainly, with respect to the handling of these securities, you should have the utmost freedom consistent with any obligation that we may be under with regard to them."

At the risk of repetition, I have a pretty clear idea that if Sir Hardman Lever had the authority and were able to say to the Treasury:

"Certainly, do what you like, and any solution that you make will be satisfactory to us; what you want is the control of the disposition of the securities. This we are quite willing to leave in the hands of Secretary McAdoo, according to a method satisfactory to him, although we should greatly prefer that it should not take the form of a formal pledge in the nature of a collateral-loan agreement."

The result would be that our Treasury would turn around and make no solution of the questions that was not satisfactory to the British Treasury. By reason of failure to agree on this end of the program, the delay in completion of the plan is likely to upset it completely. The institutions associated with us in the commitment of our $150,000,000 of United States Treasury certificates are becoming restive and the whole plan is likely to drop. Further, the Federal Treasury officials at Washington are beginning to feel hurt and are likely to wind up the whole negotiation and abandon the theory of trying to pay off the call loan.

I suppose that necessity exists for working out some written formula covering the questions at issue, but if further delay is incurred in working out this formula, I think we might just as well throw up our hands on the whole plan. It is conceivable that it is far more important to Great Britain's larger interests to have our Treasury officials feel that they have had their way and that Great Britain has trusted completely in their sense of fairness than it is to have the British Treasury be completely satisfied as to some formula to be written out beforehand concerning the handling of a few million dollars of securities. Message ends. T. W. LAMONT.

Now, Mr. Lamont, that cablegram is a very broad-minded and high-minded cablegram; but I must comment that it does not quite bear out the assertion heretofore, and many times made by the partners of Morgan & Co., that they had nothing to do with matters of high politics and intergovernmental affairs. That is the kind of cablegram that might be sent by an ambassador to the nation to which he was accredited, and giving very sound advice, as I say.

Mr. Lamont. Senator Clark, you are very complimentary, I am sure, and I appreciate that; but, you see, this had to do with a transaction in which we were very much concerned.

Senator Clark. Yes, sir; I understand that.

Mr. Lamont. We had pledged ourselves, with our associates, to buy $150,000,000 of United States Treasury certificates; and we thought it was important, as Secretary McAdoo had made plain, that the plan should be carried out. Therefore, if there was anything possible that we could do to facilitate it we were bound to do it; and if we thought the British representative was being a little stuffy it was our bounden duty to do it.

Senator Clark. I repeat that you were taking a statesmanlike method of doing it, Mr. Lamont.

Mr. Lamont. Thank you.

Senator Clark. I offer another cablegram from Mr. Lamont to E. C. Grenfell, in London, under date of January 28, 1918. It reads [reading "Exhibit No. 3041"]:

> 61504. 61473. Denkstein. For E. C. Grenfell: If Lord Reading is unavailable, I am very doubtful as to the advisability of presenting this message to any Treasury official. Sir Hardman Lever is in Washington. I have not told him of this message, which I intended as purely personal and private to Lord Reading. We regard the situation, however, as of serious importance. T. W. Lamont.

(The document referred to was marked "Exhibit No. 3041" and appears in full in the text.)

Senator Clark. Then, on January 28, 1918, a letter from Sir Hardman Lever, signed by A. Bonar Law, the Chancellor of the Exchequer, which reads as follows [reading "Exhibit No. 3042"]:

> I desire you will communicate following as a personal message from me to the Secretary of the Treasury.
>
> Lever has kept me fully informed as to progress of negotiations. I understand proposals to be as follows:
>
> 1. Dollars reimbursed to us for requisitioned ships will be used for reduction of call loan.
>
> 2. United States Treasury will make special advance up to amount required to enable us to meet February 1 maturity.
>
> 3. I am not quite clear as to meaning of what I understand to be condition of two, namely, that Secretary of United States Treasury "To be subrogated to rights of holders of February 1 maturity." But I presume this means that securities now held in trust for holders of 1-year notes should be held for future as security for advance by United States Treasury.
>
> I so much appreciate assistance you are offering us in dealing with great anxiety of February 1 maturity that I feel difficulty in objecting to above condition if you think it will help you in meeting your political difficulties of which you alone can be judge. But I am afraid pledging of British owned securities to United States Treasury is bound to cause unfavorable comment in this country and that I shall have to face British Parliamentary crisis for consenting to a precedent for which it will be pointed out there is no parallel in our own dealings with Allies. I trust, therefore, that this aspect of matter will be borne in mind before a final decision is reached. Would it not be possible for you to nominate some bank or group of banks who would

nominally take over both loan and collateral making your own arrangements with banks so that transaction would be in effect on account of United States Treasury? This would obviate direct pledging of securities to United States Treasury and might thereby meet both your and my political difficulties.

(The document referred to was marked "Exhibit No. 3042" and appears in full in the text.)

Mr. LEFFINGWELL. Senator, may I comment that that message, which as I recall it is dated January 28, 1918——

Senator CLARK. Yes, sir.

Mr. LEFFINGWELL (continuing). Clearly indicates that by that time Bonar Law had come to understand that the United States Treasury was insisting only upon subrogation with regard to the February 1 maturity, and was not insisting upon subrogation as to ship money.

Senator CLARK. I think Secretary McAdoo's letter, which I will put in the record in a minute, indicates that while he was going to pay the February maturity, he was still insisting on both.

Mr. LEFFINGWELL. I only meant to point out what was in the mind of the Chancellor of the Exchequer when he wrote this letter of January 28.

Senator CLARK. That may be, but undoubtedly what was in Secretary McAdoo's mind was subrogation as to both, and finally as we will see in a minute, Bonar Law wrote him to use his own judgment.

On January 29, 1918, Mr. Crosby in Paris cabled Chancellor Bonar Law [reading from "Exhibit No. 3043"]:

> Have just learned by wire from Cravath of cable addressed to me by Secretary McAdoo expressing surprise and regret that British collateral now in New York is not made available to protect a loan arranged in form the particulars of which are not known to me, but which represents balance due by your Government on February 1 maturity and Morgan overdraft after applying approximately 90 millions ship money. If the conditions of pledge of collateral are objectionable, and if that is the reason for refusal of collateral, I suggest that transaction might be put through to save the situation on February 1 with proposal on your part that these conditions might be revised after that date even though this would not bind those to whom the pledge is made. It is not improbable that if the conditions are judged by Secretary McAdoo as being harsh that modification might be obtained later.

In other words, Secretary Crosby is suggesting to Bonar Law that he accede to Secretary McAdoo's demand as to subrogation as to the overdraft, which included the ship money, and as to the February 1 maturities, in the hope that later McAdoo might let him off, which is somewhat the suggestion made by Mr. Lamont from a different standpoint, that that might be done [continuing reading]:

> It would be most unfortunate if the transaction which has presumably been negotiated between your representatives, those of the Treasury of the United States, and the New York bankers should fail, in which case at the last moment you might think it necessary to appeal to our Treasury to meet the $100,000,000 due February 1. Being unaware of the details, I am telegraphing somewhat in the dark—

And so forth.

(The document referred to was marked "Exhibit No. 3043" and is included in the appendix on p. 9455.)

Then, on January 29, the same day, Mr. Cravath writes to Lord Reading and informs him it is necessary for him to go to the hospital, sending him Crosby's cable, and adds this suggestion on his own part [reading from "Exhibit No. 3044"]:

> What I hope the Chancellor of the Exchequer will do is this: Promptly cable Secretary McAdoo that he acquiesces in such arrangements as Secretary McAdoo regards proper for providing for the February 1 maturity, and the so-called overdraft (which includes Treasury bills), but, expressing an earnest hope that some suitable arrangements will be made by which, hereafter, the loan can be refinanced and the surplus collateral made available for other purposes of the British Government. In case it should develop at any time that changed financial conditions would render such a transaction possible.

(The document referred to was marked "Exhibit No. 3044" and is included in the appendix on p. 9456.)

Mr. **Leffingwell.** You see, Mr. Cravath was misinformed there, because he speaks of arrangements providing for the overdraft and the Treasury bills.

Senator **Clark.** Yes, sir; but neither one of them was misinformed as to what McAdoo wanted.

Mr. **Leffingwell.** Yes, sir; they were. Cravath was talking about providing for the overdraft and the Treasury bills, which was a matter of $400,000,000, whereas McAdoo was not talking about anything but paying off the ship money.

Senator **Clark.** McAdoo expressed himself very frankly and freely in a letter of January 29, 1918, as follows [reading "Exhibit No. 3045"]:

> AMEMBASSY, *London.*
>
> Urgent. Please deliver the following telegram from Secretary McAdoo to the British Chancellor of the Exchequer and furnish a copy thereof to Crosby:
>
> Quote. I have received your personal message with respect to the February first maturity and the ship money. In view of what you say as to the situation which would be created in Great Britain if you should assent to my desire to be subrogated to the position of pledgees in respect to the collateral of these loans and in view of your statement that there is no parallel for such an arrangement in your own dealings with the Allies, I am constrained, though with great reluctance, to defer to your wishes in this matter, although I cannot alter my judgment that the course proposed by me is wise and right in aid of the general situation and would have been welcomed in this country as indicating a readiness on the part of Great Britain to deal not less liberally with the Government than with the banks, especially when the sole purpose of the United States in suggesting that it have the use of such collateral is to promote and serve the common cause and for no other. The suggestion you make as to handling the transaction indirectly through a bank or group of banks is not feasible under our own laws. I have received from the British representatives here certain assurances in respect to the securities owned or controlled by the British Government. These assurances are more restricted in form than I had expected. I am confident that your Government will cooperate with me to the full extent in your power, whether in respect to securities owned or controlled by the British Treasury or otherwise, both here and elsewhere, in meeting the financial burdens in aid of the common cause, however and whenever these burdens may have their inception, and thereby facilitating the financing of the requirements of Great Britain and assisting in lightening the almost intolerable burden which the war is placing upon the Treasury of the United States. Unquote.
>
> (Based on letter dated Jan. 29, 1918, from Mr. McAdoo.)
>
> (s) LANSING.

(The document referred to was marked "Exhibit No. 3045" and appears in full in the text.)

Senator **Clark.** Then we come to a letter dated January 30, 1918, being from Mr. Leffingwell to Sir Hardman Lever, simply confirming instructions which are contained in the letter of Mr. McAdoo of the day before, and which I will not take the trouble to read except to say that he again uses the phrase that the Secretary was constrained to yield in the matter, and it refers briefly to certain Japanese loans and Danish loans on which the British are receiving funds. I will place that letter in the record.

(The document referred to was marked "Exhibit No. 3046" and is included in the appendix on p. 9456.)

Senator CLARK. The next exhibit is a cablegram dated January 30, 1918, from Crosby to McAdoo, which reads as follows [reading "Exhibit No. 3047"]:

> 8452, JANUARY 30, 11 P. M. From Crosby to McAdoo: Difficulty here over arrangement proposed by you for dealing with February first maturity caused by misunderstanding. Chancellor's today's cable to you seems to meet situation fully and leave you free to deal with matter as you think best. Chancellor anxious that any announcement shall make plain that arrangement is a special one providing, in effect, for continuing previous secured loans, thus explaining use of collateral and that United States Treasury is not changing its policy of not requiring collateral for its regular loans to Great Britain, this especially desired because British Government has not received collateral for loans to Allies. Chancellor also hopes arrangement will take such form that with our approval surplus collateral may be available hereafter for use in promoting common ends. PAGE.

(The document referred to was marked "Exhibit No. 3047" and appears in full in the text.)

Senator CLARK. Then another exhibit, from Mr. Crosby in Paris to Mr. Cravath in London, which reads [reading]:

> Wired last night to Chancellor—

Which refers to the cablegram I just read.

Mr. LEFFINGWELL. Was Mr. Crosby in Paris when the one you just read was sent?

Senator CLARK. Most of Mr. Crosby's communications at that time were sent through Ambassador Page in London, and would be transmitted that way.

Here is the cablegram or telegram from Crosby to Cravath, dated January 30, 1918, in which it states [reading "Exhibit No. 3048"]:

> Regret exceedingly your illness. Wired last night to Chancellor and am wiring this morning to Reading concerning loan urging that acquiescence be given to conditions negotiated in New York and assume that refusal has thus far been based upon some conditions entering into the pledging of collateral, probably by Keynes. Have suggested that possibly Secretary of Treasury, after February first, might modify these conditions if he considers them unfair, but that it would be most unfortunate if at the last moment appeal should be made to Treasury to take care of February first maturities.

Apparently Mr. Crosby did not realize that Secretary McAdoo on the day before had sent this message to Mr. Bonar Law [continuing quotation]:

> I must stay here two or three days longer in order to obtain any result from my work with Bliss and others concerning cooperation in matter of munitions. You know how difficult the task is, but am hopeful of some good results. Best wishes for rapid return to health.

(The document referred to was marked "Exhibit No. 3048" and appears in full in the text.)

Senator CLARK. Then on February 2, 1918, Secretary McAdoo, through Secretary Lansing, communicates the following to the

British Chancellor of the Exchequer [reading from "Exhibit No. 3049"]:

> As indicated in my message of January 29, I have felt constrained to meet your views as presented to me by your representatives here. Mr. Crosby was mistaken in supposing that the proposed arrangements make provision for the overdraft beyond what the ship money would suffice to pay.

That is in accordance with your view, Mr. Leffingwell [continuing reading]:

> On the contrary, I am obliged to ask that such moneys as may be made available to your Government in the United States by the Japanese Government or the Danish Government or by shipments of gold shall be applied in reduction of your demands for current purposes rather than to retirement of capital liabilities.

That, I take it, was an indication that he was going to punish the British for not acceding to his demands as to subrogation.

This is to Secretary Lansing and it states further [continuing reading]:

> May I ask you to have a copy of the foregoing message delivered to Mr. Crosby together with the following:
>
> "Treasury No. 70. Your cable of January 30 and your no. 58 received. Simultaneous therewith personal message from Chancellor of the Exchequer whose understanding apparently quite different from yours. British Embassy will hand you copy my reply to the Chancellor. Ask Chancellor to give you copy of his cable to me which apparently shows that he still is unwilling to subrogate me to rights of pledgees with respect to collateral. In addition to credit of $185,000,000 previously established for British Government, $65,000,000 was advanced January 31, making total of $250,000,000 for January. For February, $210,000,000 credit has been established, of which $30,000,000 was advanced February 1. With these sums British Government is taking care of February first maturities. British Government also received February 1 from Shipping Board $80,794,000 for ships, which was applied on overdraft. Expect that moneys received by British from Japanese and Danish Governments shall be applied to current expenditures and not to retirement of capital indebtedness. British representatives here indicate possibility of having to ask for $40,000,000 this month in addition to $210,000,000 credit established but this question is being held in abeyance and my judgment is that nothing further will be needed for February.

(The document referred to was marked "Exhibit No. 3049" and is included in the appendix on p. 9457.)

Senator **Clark**. Next is a letter from Sir Hardman Lever to Mr. Leffingwell, which will be placed in the record; the only pertinent part of which deals with this particular discussion as follows [reading from "Exhibit No. 3050"]:

> In accordance with your letter the sum of $80,794,041.65, representing payment for the ships requisitioned from the British Government, has been applied in reduction of the call loan or overdraft, while a sum of approximately $92,000,000 is being applied to meeting the secured notes of the British Government which matured on February 1.

Mr. **Leffingwell**. What is the date of that?

Senator **Clark**. The 5th of February 1918. He refers to your letter of January 30.

Mr. **Leffingwell**. This is an official report from him of what was done with the money which they borrowed?

Senator **Clark**. Yes, sir.

(The document referred to was marked "Exhibit No. 3050" and is included in the appendix on p. 9458.)

Senator **Clark**. Then a cablegram for Mr. Lamont from Grenfell, London, dated January 29, 1918, which reads:

> 48840. Denkstein for T. W. Lamont: 61473, 61504. As Lord Reading was not available, I considered advisability communicating your message to Treasury and settled not to do so, so that you and I are in accord.
>
> I propose, however, if opportunity should occur today or tomorrow, to take up the matter with Bradbury, but not to show your cable.
>
> I fully realize the importance of the matter as regards British Treasury, but as Sir Hardman Lever in constant communication with Treasury, it is not always wise for me to bring pressure support our views.

(The document referred to was marked "Exhibit No. 3051" and appears in full in the text.)

Senator **Clark**. A cablegram from Mr. Lamont to Grenfell in London, dated January 29, 1918, reading as follows [reading]:

> 61587. Denkstein. For E. C. Grenfell. 48839. 48840.
>
> Have just received word from Washington that all difficulties have been adjusted. We therefore expect to put the transaction through promptly.

(The document referred to was marked "Exhibit No. 3052" and appears in full in the text.)

Senator **Clark**. I take it, Mr. Lamont, that was on the basis of Secretary McAdoo's cable of January 29?

Mr. **Lamont**. About the $150,000,000. I assume that it had to do with the February 1 maturities and our undertaking to buy $150,000,000 of Treasury certificates.

Senator **Clark**. That was determined by Secretary McAdoo's cablegram of January 29 to the Chancellor of the Exchequer.

Mr. **Lamont**. I expect that was it.

Mr. **Brown**. I suggest that we put in, with respect to Mr. Crosby's misunderstanding, three cables which will clear it up. They do not need to be read but just entered in the record.

Senator **Clark**. These are three cablegrams, one dated January 30, 1918, the second dated January 31, 1918, and the third one dated February 1, 1918, from Mr. Crosby, explaining the mistake he was under with respect to the payment of overdrafts, which subject has been mentioned heretofore.

(The documents referred to were marked "Exhibits No. 3053, 3054, and 3055" and are included in the appendix on pp. 9458 and 9459.)

Senator **Clark**. The next exhibit is a cablegram from Mr. Lamont to Mr. Grenfell, dated February 1, 1918, which reads [reading "Exhibit No. 3056"]:

> 61709. For E. C. **Grenfell**: 48839. Whole transaction referred to has gone through smoothly today, and call loan has been reduced by approximately $80,000,000. Sir Hardman Lever handled matter in Washington very satisfactorily from all points of view, and our belief is that agreement finally arrived at between him and Federal Treasury should be very satisfactory to all concerned.

(The document referred to was marked "Exhibit No. 3056" and appears in full in the text.)

Senator **Clark**. That $80,000,000 was the ship money, Mr. Lamont, was it not?

Mr. **Lamont**. Yes, sir.

Senator **Clark**. A statement from Morgan & Co. as to the state of the British accounts in their hands at that time, being a cable to London dated February 1, 1918. It is offered for the record.

(The document referred to was marked "Exhibit No. 3057" and is included in the appendix on p. 9460.)

Senator CLARK. The next exhibit is a letter from Morgan & Co. to Morgan, Grenfell in London, setting forth approximately the same statement.

(The document referred to was marked "Exhibit No. 3058" and is included in the appendix on p. 9461.)

Senator CLARK. Then a cablegram from Crosby to McAdoo, dated February 5, 1918, reading as follows [reading "Exhibit No. 3059"]:

> For McAdoo from Crosby:
>
> Am convinced Chancellor has intended all along to leave you free to deal as you thought best with February first maturity and British securities in America. Believe that the failure of his cables to make this entirely clear due to his preoccupation with parliamentary duties and manner in which matter was handled by subordinates especially in Washington. Unfortunately during discussion last week I was in Paris and Cravath confined to house with sore throat which rendered him almost speechless. Reading fully informed. PAGE.

(The document referred to was marked "Exhibit No. 3059" and appears in full in the text.)

Senator CLARK. Now bearing in mind that Secretary McAdoo's last communication to Bonar Law was the statement that he was constrained, under duress, to pay these maturities on February 1, but renewing his assertion that he was entitled to subrogation both as to the collateral on the February 1st maturities and the ship money, we come to a cablegram dated February 6, 1918, or rather, a letter signed by Richard Crawford, to Secretary McAdoo, communicating a cablegram. It states [reading "Exhibit No. 3060"]:

> I am directed to communicate to you the following personal message from Mr. Bonar Law, the Chancellor of the Exchequer:
>
> "Further telegram received and conversation with Cravath shows that my telegram of January 30 may have been misunderstood. I intended last paragraph to mean that I left myself entirely in your hands. The last thing I should have thought of would have been that I should make conditions as to financial assistance accorded us by the United States Government. You have to bear great burden of Allied finance in the United States and you rightly rely on our cooperation in every way and to leave you a free hand as to proper solution of current problems.
>
> "I am giving instructions that you are to be subrogated to lien of former lenders upon securities previously pledged to holders of 1-year notes and that these securities as well as other securities pledged to secure overdraft be dealt with according to your instructions."
>
> Believe me, my dear Mr. Secretary,
>
> Yours very sincerely,

(The document referred to was marked "Exhibit No. 3060" and appears in full in the text.)

Senator CLARK. Apparently Bonar Law followed the suggestions made separately by Mr. Lamont and Secretary Crosby and Mr. Cravath and placed himself unreservedly in Secretary McAdoo's hands, both as to securities back of the February 1 maturities and the securities back of the demand loan. Is not that correct?

Mr. LEFFINGWELL. The last paragraph of that letter, Senator, to my mind, is just as clear as a bell.

Senator CLARK. It is just as clear as a bell to mine, too, Mr. Leffingwell.

Mr. LEFFINGWELL. The Chancellor says two things: The first part is the general expression of leaving himself in the Secretary's hands, and the last part is as plain as language can be, and it says: [reading from "Exhibit No. 3060"]:

> You are to be subrogated to the lien of the former lenders upon securities previously pledged to holders of the 1-year notes and that these securities as well as other securities pledged to secure overdraft be dealt with according to your instructions.

There is the clearest possible separation, Senator, between the securities pledged for the 1-year notes, to which we were to be subrogated——

Senator **Clark.** According to your own notion, all that Secretary McAdoo had to do was to order the securities subrogated.

Mr. **Leffingwell.** No; Senator. The subrogation concerned securities for the 1-year notes, and there was a general agreement that all securities are to be dealt with in accordance with his instructions. That does not mean that the Secretary of the United States Treasury can appropriate the securities of the British Government. It means what we have all the time been trying to explain, that the British Treasury was going to comply with the views of the American Treasury as to the best use that could be made of the unsubrogated securities in the common cause.

Senator **Clark.** Let me ask you, Mr. Rathbone, what did you have in mind on the 14th of February 1918, when you drew up the form of a letter for Mr. Leffingwell's approval, in which you assert the purposes to be [reading from "Exhibit No. 3061"]:

> to insure the subrogation of the United States Treasury to the rights as a creditor in respect of the securities pledged to secure the 1-year secured gold notes of the British Government, which were paid on or about February 1, 1918, and the securities, which were released on or about that date, from the charge of the call loan or overdraft * * *.

There were no securities released from the charge of the call loan.

Mr. **Rathbone.** It is pretty hard to ask me to explain what I did that many years ago.

Senator **Clark.** That is a form letter which you prepared for Mr. Leffingwell's approval. It was evidently the position of the Treasury officials that the machinery was to secure subrogation. I admit that the machinery never went into effect, either as to the February 1 maturities or the others, and the actual pledge was never made, for some reason which is still unaccountable.

(The document referred to was marked "Exhibit No. 3061" and is included in the appendix on p. 9462.)

Mr. **Lamont.** You quoted me, advising our firms in London to try to make arrangements as to February 1 and subrogate as to ship money. I did not advise that.

Senator **Clark.** What you advised them to do——

Mr. **Lamont.** Just a minute.

Senator **Clark.** Excuse me.

Mr. **Lamont.** I did not advise them that. The telegram of mine, which you were good enough to read, advised them in very general terms to put themselves in the hands of Secretary McAdoo.

Senator **Clark.** If that is a correction, Mr. Lamont, I stand corrected. I did not mean to put any words in your mouth which you had not already said.

Mr. **Rathbone.** Senator, answering your inquiry, let me say that my understanding of the Chancellor's cable, confirmed also by Mc-

Adoo's acknowledgment of it, was exactly the same as Mr. Leffingwell has stated.

Senator **Clark.** Mr. McAdoo's acknowledgment was in the same terms, almost verbatim, as the Chancellor's.

Mr. **Rathbone.** Yes, sir.

Mr. **Leffingwell.** Excuse me a second. Except, Senator, that the Secretary's acknowledgment contained an additional sentence which was that he appreciated very much the Chancellor's acquiescence in his suggestion, and that these securities would be used for your and our countries' needs, indicating it is in the common cause, rather than a use of them as collateral securities.

Senator **Clark.** That is what he had always insisted in connection with all the subrogations, Mr. Leffingwell.

Mr. **Leffingwell.** I wanted to point out the distinction between the rights which Secretary McAdoo conceived himself as acquiring with respect to these securities, and the rights which we were speaking of in an early cable, where he spoke, or someone spoke, of the fact that the British Government would have been glad to have given any bankers who could have arranged to meet the February 1 maturity the same rights which he was asking for in respect to the February 1 maturity.

Now, of course, the British Government would not have given anybody any rights to collateral for a payment made with their own money, owing to them, and there is an important distinction, sir, between the character of the two payments. And I think a very important distinction was present in the mind of the British Chancellor of the Exchequer and the mind of the Secretary of the Treasury, when those letters were exchanged, between the subrogated securities, which related to the February 1 maturity and the whole lot of securities, as to which he finally gave satisfactory assurances instead of the very restricted assurances which Sir Hardman Lever had offered, which were most unsatisfactory to Secretary McAdoo. He said:

> These restricted assurances are most unsatisfactory. We do not want to borrow on collateral. What we want is the use of collateral in neutral markets and all over the world, where it will most help the Allied cause.

And those restricted assurances were most unsatisfactory, as McAdoo points out in his cable to the Chancellor.

The Chancellor said:

> You misunderstand me. I meant to put myself in your hands.

Senator **Clark.** Sir Hardman Lever never referred to any subrogation of any sort.

Mr. **Leffingwell.** The letter which you read into the record contained no subrogation, but contained something with respect to the use of collateral.

Senator **Clark.** I offer for the record Senator McAdoo's letter, which I won't read, if nobody objects.

Mr. **Leffingwell.** I interrupted Mr. Rathbone.

Senator **Clark.** I beg your pardon, Mr. Rathbone.

Mr. **Rathbone.** My understanding is exactly as Mr. Leffingwell has explained it, and this was a communication between employees of the department. I ought to have said, "And as to the securities which were released on or about said date."

That is undoubtedly what I had in mind, the use of the securities, their release from the loan.

Mr. **Brown**. But you say, Mr. Rathbone [reading from Exhibit No. 3061"]:

> or at the option of the Secretary of the Treasury the use of such securities in such manner as he shall approve * * *.

Mr. **Rathbone**. Yes.

Senator **Clark**. Evidently, Mr. Rathbone, you thought the Government was entitled to subrogation, because you say [reading from "Exhibit No. 3061"]:

> To ensure the subrogation of the United States Government to the rights of the creditor in respect of the securities pledged to secure the 1-year secured gold notes of the British Government, which were paid on or about February 1, 1918, and the securities, which were released on or about said date, from the charge of the call loan or overdraft, or at the option of the Secretary of the Treasury the use of such securities in such a manner as he shall approve. * * *

In other words, the provision for segregation or at the option of the Secretary of the Treasury be used. In other words, that is the form proposed by you, which evidently indicates your view of the matter, which would indicate a layman's view, such as mine, at this late date, is not out of line with that of an eminent Assistant Secretary of the Treasury at that time.

Mr. **Rathbone**. I was not an eminent Assistant Secretary of the Treasury at that time. I had been in the Treasury about 2 weeks, and I was sending a memorandum to Mr. Leffingwell on the subject, and it is a little difficult to say how your mind was formulated as to a certain thing.

I do say this without any exception or without any hesitation: You have been reading from cables from the Chancellor of the Exchequer, who said he was going to send instructions to his representatives to do certain things. There were any number of conferences that the Treasury officials had, probably Mr. Leffingwell, because he was an Assistant Secretary of the Treasury, and I was not anything, and just sat in listening to them, making comment maybe once in a while, which defined absolutely what the so-called subrogation was, and to what it applied.

And, as a result I can say very distinctly, so far as Secretary McAdoo was concerned, Mr. Leffingwell and myself, there was no doubt but what we understood what was the agreement between the United States Treasury and the British Treasury in regard to that matter. The term "subrogation" is a very loose term. What it was worked out to mean with the agreement of both Treasuries was an agreement on the part of the British Government, if and when we requested it, to pledge—an agreement to pledge, not a pledge.

Senator **Clark**. I understand that was your instruction, that of Mr. Leffingwell and Mr. Davis later, which I am coming to in just a few minutes.

Mr. **Rathbone**. An agreement to pledge the securities, if the Secretary of the Treasury requested it as collateral to the loans of the United States in certain definite amounts.

There was not a pledge for several reasons. One of the reasons was given in the cable of the Chancellor of the Exchequer that it would hurt British credit.

Another reason was that, if there had been a pledge of those securities——

Senator CLARK. It would have taken an act of Congress to release them.

Mr. RATHBONE. It would have taken an act of Congress to release them, and maybe they ought to have been used.

Senator CLARK. That was the argument used, as I will presently show in connection with this not being a pledge but as a promise to make a pledge.

Mr. RATHBONE. A promise to make a pledge; yes, sir.

Senator CLARK. We will come to that in a minute, but let us finish with this thing. Apparently Mr. Leffingwell, who was an eminent Assistant Secretary at that time, if you were not—I think you underestimate your own importance—but Mr. Leffingwell was not apparently in doubt on the subject of the subrogation for the demand-loan release, because he put in a proposal: "Let us see what Reading will propose."

Mr. LEFFINGWELL. That was a pretty good suggestion.

Mr. RATHBONE. It would not have affected the Treasury, if we had gotten them the way we thought it would.

Senator CLARK. You would not have taken that extra sock at your Allies?

Mr. LEFFINGWELL. Senator, just a minute before you proceed, in connection with Mr. Rathbone's comment in relation to that memorandum.

Senator CLARK. We are at a later stage.

Mr. LEFFINGWELL. I understood him to say he meant "as to."

Mr. RATHBONE. That is unquestionably correct, but it does not say that.

Mr. LEFFINGWELL. He meant as to those securities such and such was the case.

Senator CLARK. That does not change the sense of the sentence.

Mr. RATHBONE. I should think it would.

Senator CLARK. Apparently other gentlemen were making the same mistake. Here is a memorandum of conversation with Mr. Blackett, of the British Treasury, signed by Mr. Rathbone, on February 23, 1918, which said [reading from "Exhibit No. 3062"]:

> Mr. Blackett promised to furnish a statement of the collateral now held under the overdraft; the list formerly submitted is not accurate owing to sales of securities since May. He stated that while there was no right to release collateral held under the over-draft as payments were made on account of the same, Morgan & Co. had agreed, however, to deliver a fair proportion of this collateral. He also stated that under the arrangements made, the collateral held under the overdraft was not to be sold for the present. The United States was to be subrogated to the rights of the creditor in respect to this collateral, and the collateral held under the obligations paid February 6 (a list of which Mr. Blackett agreed to furnish), in accordance with the arrangement made. He said he had not worked out any plan in respect to such subrogation, as Lord Reading intended to discuss that matter.

Does that refer to this transaction? I am asking you for information. It would seem that that fitted in with the view taken apparently by Mr. Rathbone at the time.

Mr. RATHBONE. I am not sure, but I do not think that is my memorandum.

Senator CLARK. It is signed by your initials.

Mr. RATHBONE. Are you sure it is "A. R." and not "A. S."?

Senator CLARK. It is taken from the Treasury files.

Mr. RATHBONE. Have you got the original?

Senator CLARK. No; but this is taken from the Treasury files [handing copy to witness].

Mr. RATHBONE. It may be, but I do not think it was.

Senator CLARK. The point is, gentlemen, whatever may be the fact as to subrogation as to ship money on the demand loan there is no dispute there as to the fact that there was subrogation as to it.

Mr. LAMONT. On the February 1 maturity?

Senator CLARK. On the February 1 maturity?

Mr. LAMONT. You said the demand loan?

Senator CLARK. I said whether it be true that there was subrogation as to the ship money, on the demand loan there is no question that there was subrogation as to the collateral back of the February 1 maturities.

Mr. LAMONT. Quite.

Senator CLARK. So that the question as to subrogation is really a question, as I said earlier in the evening, a question of amounts, more than anything else.

(The document referred to was marked "Exhibit No. 3062" and is included in the appendix on p. 9462.)

Mr. LEFFINGWELL. Before you go on, Senator, may I ask permission to read, if you will, into the record at this point three cables or letters exchanged between Shipping Board and the British Government, represented by Arthur Balfour?

Senator CLARK. What is this, Mr. Leffingwell?

Mr. LEFFINGWELL. I was going to ask your permission just to finish about the ship money.

Senator CLARK. I will be glad to have you.

Mr. LEFFINGWELL. With your permission, I wanted to offer for the record certain communications exchanged between the United States Shipping Board and Mr. Arthur Balfour, who was the British Foreign Minister, who visited this country at the head of a mission at the beginning of the war. It is on page 28 of the little pamphlet of reprints from the Foreign Relations of the United States, 1917, and at the appropriate time I was going to take advantage of the permission the chairman gave us to submit for the record any documents which seemed to be useful.

Senator CLARK. I would be glad to have you insert it, Mr. Leffingwell, or read it.

Mr. LEFFINGWELL. If I may read just a passage or two.

Senator CLARK. I would be glad to have you do it.

Mr. LEFFINGWELL. Because I think it throws a very real light upon the nature of the problem which Secretary McAdoo found himself confronted with in connection with the subrogation he had asked for in relation to the ship money, as he insisted upon it.

This is a personal letter from Mr. Arthur Balfour, who I scarcely need to say was not only the British Foreign Minister but probably the most eminent of living British statesmen. This is dated August 21, 1917, 5 months before the February 1 maturity [reading from "Exhibit No. 3063"]:

MY DEAR AMBASSADOR: When I was in the United States the question was raised as to whether the shipping under construction in American yards on British account should be taken over by the American Government or should

> remain in the ownership of the country for which it was being built. Mr. Denman, at that time head of the Shipping Board, raised this point in the course of a conference at which both he and General Goethals were present which the British Government had adopted; his line of argument being that British orders occupied all the yards in the United States. * * *

Then, skipping down toward the end, with your permission, to save time, this being a cabled letter and the argument very full, it states [continuing reading:]

> From the very nature of the case, the largest losses in merchantile shipping have been borne by Great Britain. It is on Great Britain, in the main, that the Allies have relied for the maintenance of the sea-borne traffic on which not merely their capacity for fighting but their very existence depends. It is on Great Britain that the full brunt of the submarine campaign has fallen. Our losses have been heavy, and unless we obtain the ships now under construction for us in America we cannot easily tide over the critical period which must elapse before our own extended shipbuilding program bears its full fruit.
>
> We should, therefore, feel much gratified if the United States Government thought it consistent with the claims of their own national interests to allow the ships now building for us in America to remain in their present ownership, though for the reasons given above we shall not press the point. We rely—as I said at Washington—on their justice and good will.

(The document referred to was marked "Exhibit No. 3063" and is included in the appendix on p. 9465.)

Mr. LEFFINGWELL. Next is a letter or statement communicated by the Chairman of the Shipping Board, who by that time must have been Mr. Hurley, if I remember correctly, dated at Washington. September 7, 1917 [reading from "Exhibit No. 3064"]:

> After giving very careful thought and consideration to Mr. Balfour's views, the Chairman of the Shipping Board has made the following reply to the Secretary of State, which represents the views of this Government: * * *

That was a very serious matter, and it is there explained that the Shipping Board insisted on taking over those ships.

(The document referred to was marked "Exhibit No. 3064", and is included in the appendix on p. 9466.)

Mr. LEFFINGWELL. The third is Mr. Balfour's reply, which begins on page 633 with the statement [reading from "Exhibit No. 3065"]:

> His Majesty's Government accept without question the decision of the United States Government to requisition all vessels building in American shipyards, including those building to British orders.

Then he goes on to say again the reasons why the United States ought not to take their ships, but he maintains the position that it is accepted without question.

(The document referred to was marked "Exhibit No. 3065", and is included in the appendix on p. 9467.)

Mr. LEFFINGWELL. There are about two or three pages of that last exhibit, and I only meant to ask permission to introduce it at this moment, because to me it suggests the reason why the Secretary very likely found it a little awkward to go all the way, in the view that the ship money was not payable absolutely and unconditionally to the British Government, or in the view that he was entitled to subrogation.

Senator CLARK. So far as the record shows, Mr. Leffingwell, he did protest to the bitter end, claiming he was entitled to subrogation.

Mr. LEFFINGWELL. Up to 2 days before the bitter end.

Senator CLARK. It was up there when he said [referring to "Exhibit No. 3039"]:

> I have got my head against the wall, and it will impair United States credit, and they are not fair enough to do the things, and I am going to pay the February 1 maturities, but I still say we ought to be subrogated not only with respect to the February 1 maturities but with respect to ship money.

That was his last word on the subject. The record from that time on changes, but it does not change the construction I have put on the record, namely, that he said he was entitled to have subrogation on ship money, but it is a question of amounts.

Mr. LEFFINGWELL. I understand you have said that I should put this into the record.

Mr. WOHLFORTH. If we can hold it and put it in the record at the end, it would be better, because we have different pieces of it.

The CHAIRMAN. Very well.

Senator CLARK. As soon as the question of maturities was concluded, efforts were again started for paying off the demand loan. I offer a letter dated February 14, 1918, from Mr. Lamont, signed "T. W. L.", addressed to Sir Hardman Lever, which reads in part as follows [reading]:

> It has seemed to us that it would be well for us to put this information in his hands, particularly to point out the amounts which this market has actually advanced to the British Government through the medium of this call loan since the United States dismissed the German Ambassador, so that if the Treasury at some future time has funds available for a further reduction of the demand loan, it will have ample basis for so doing on the ground of reimbursing advances made since the United States became, in effect, a belligerent.
>
> Won't you please let me know if there is any part of this that you would particularly like to have altered in any way.

(The document referred to was marked "Exhibit No. 3066" and is included in the appendix on p. 9468.)

Senator CLARK. There was in effect a contention, was there not, Mr. Lamont, that there had been running what amounted to an open account with one belligerent, and that you thought that the United States ought to assume that obligation from the time of the entries, if it had been shown that the entries had been made after the United States fell out with Germany?

Mr. LAMONT. No, sir; I should not draw that inference. I think it means exactly what it says. The occasion of von Bernstorff being handed his passport was, of course, a very striking matter, and I mention it here, but there is no contention that you indicate. This is to show the working of the demand loan, as the letter says, the amounts advanced by the British Treasury. I think that is about all there is to say.

Senator CLARK. I offer also the letter presumably enclosed with your letter to Sir Hardman Lever.

Mr. LAMONT. Yes; to see whether it checked with his own records.

Senator CLARK. Yes. It amounted to your contention the United States Government ought to pay off the demand loan.

Mr. LAMONT. Oh, not off. We never took the position where we could advise the United States Government what it ought or ought not to do. But it was explained here the other day the position of the demand loan was such—it was frozen so hard that it was our duty to try to get it unfrozen if we could.

Senator CLARK. That was the purpose of it, though. I will amend my language and say to induce the United States Government to pay off a demand loan.

Mr. LAMONT. Yes; and they always turned us down on it.

Senator CLARK. Very properly, in my opinion.

(The document referred to was marked "Exhibit No. 3067", and is included in the appendix on p. 9468.)

Senator CLARK. I now offer a memorandum by Mr. Davis for Mr. Leffingwell, dated May 20, 1918.

(The document referred to was marked "Exhibit No. 3068", and appears in full in the text.)

Senator CLARK (reading):

In your letter of January 30 to Sir Hardman Lever, in reference to February 1 maturities, you stated the following:

"In this connection and referring to our various talks concerning the loan of $40,000,000 in the United States which your Government is negotiating with the Japanese Government, and the balance of the Danish loan of $25,000,000, which I understand will be made available to your Government in New York from time to time in the next few months, the Secretary of the Treasury is of the opinion that in view of the very heavy demands which are foreshadowed for current purposes these sums, when made available to your Government, should be applied in reduction of those demands rather than of the capital liabilities of your Government in this country."

Under date of February 5, Sir Hardman Lever wrote, in part, as follows:

"I note that the Secretary of the Treasury is of opinion that the proceeds of the Japanese loan of approximately $40,000,000, and the balance (which will not be available until April) of the Danish loan of $25,000,000, should be applied for current outgoings rather than in reduction of capital liabilities. I have at once conveyed this opinion to the Chancellor of the Exchequer, and at the same time I am making further inquiries in regard to the possibility of bringing a small amount of gold from Canada."

Under date of May 4, Sir Hardman Lever enclosed a statement for the month of April, supplementing statements previously sent, which showed that $10,000,000 had been received from the Danish loan and $1,116,324.78 from proceeds of due bonds, called bonds, etc., and that $11,116,324.78 had been paid in reduction of call or demand loan.

It appears that $15,000,000 of Danish loan was probably almost entirely applied on amount of call loan before February 1 and also that the balance, or $10,000,000, was applied in April (without consultation, and in opposition to our understanding as expressed in the letter of Jan. 30).

Senator CLARK. I offer a letter dated May 23, 1918, from Sir Hardman Lever, financial secretary to the Treasury, to Mr. Leffingwell [reading "Exhibit No. 3069"]:

DEAR MR. LEFFINGWELL: I have your letter of May 20 regarding the statement supplied to you for the month of April, containing the receipt of the balance of the Danish loan and its disbursement. In reply I desire to amplify somewhat the statement sent you by adding that the balance of the Danish loan, namely, $10,000,000, was applied after very careful consideration in part payment of British Treasury bills maturing in the early part of April, in view of the difficulties of renewal owing to the Liberty Loan issue.

Lord Reading tells me he referred to this matter at an interview which he had with you on cognate questions at the end of March, and informed you that this $10,000,000 would be applied as above stated. It was one of various incidents discussed, and probably did not leave an impression upon your mind.

I am, my dear Mr. Leffingwell,

Yours very cordially and sincerely,

(The document referred to was marked "Exhibit No. 3069", and appears in full in the text.)

Senator **Clark**. I could not believe that you would not remember a discussion about $10,000,000, Mr. Leffingwell.

Mr. **Leffingwell**. Did you read my letter of May 20?

Senator **Clark**. No.

Mr. **Leffingwell**. That is an answer to a letter from me.

Senator **Clark**. Evidently it is. I do not seem to have the letter of the 20th. If you have it, I will be glad to put it in the record. I have Mr. Davis' memorandum.

Mr. **Leffingwell**. I am pretty sure we have it.

Senator **Clark**. I think your letter has been placed in the record.

Mr. **Leffingwell**. Did you read that this morning? I think you did read that.

Mr. **Brown**. Very likely.

Senator **Clark**. I am not sure I have it here, but I would be glad to get it, and if it is not already in the record we will put it in.

Mr. **Leffingwell**. It was a pretty short letter, calling him to account for the matter that Mr. Davis had called to my attention.

Senator **Clark**. I offer for the record a letter from Mr. Crosby to Lord Reading, dated June 15, 1918 [reading "Exhibit No. 3070"]:

> **Dear Lord Reading**: May I thus venture to remind you of the hasty conversation we had, in which Secretary McAdoo informed you of the hope that you would endeavor to finance the British maturities through banking channels. It is, of course, important that as early as possible some solution of the matter should be reached.
>
> Cordially yours,

(The document referred to was marked "Exhibit No. 3070", and appears in full in the text.)

Senator **Clark**. By this time, Mr. Leffingwell, having gotten the February maturities out of the way, the question of the September 1 maturities is beginning to come on. During this correspondence the reference is being made on the part of the United States Government or the Treasury to have some arrangement made for taking care of the September 1 maturities.

Mr. **Leffingwell**. That was dated June 15, was it, Crosby's letter?

Senator **Clark**. Yes; and that was the first discussion I have come upon on that subject.

Mr. **Leffingwell**. It would be helpful to mention in that connection that Crosby had returned to this country for a time.

Senator **Clark**. Senator McAdoo had gone over to the Railroad Administration for a good deal of his time.

Mr. **Leffingwell**. I think at that particular moment he was out of Washington.

Senator **Clark**. I offer a letter to Mr. Leffingwell from Mr. Lamont, dated July 3, 1918, in regard to the demand loan.

I will read portions of it and insert the whole letter in the record. You can read any other part of it that you please, Mr. Lamont.

Mr. **Lamont**. Thank you.

Senator **Clark** [reading from "Exhibit No. 3071"]:

> Furthermore, all the institutions who have now carried the burden of this so-called demand loan for almost a year and a half, have been, as you know, most loyally cooperative with the American Treasury.

Mr. **Lamont**. May I interrupt to ask you if you will read the first three lines of the second paragraph? I wanted to make it clear we had acceded to that request, of course.

Senator **Clark** [continuing reading]:

> In fact, with this in mind, we were glad to accede to the condition that you laid down, that, until further notice, we should refrain from marketing any of the collateral.

Mr. **Lamont**. That is it. I wanted to make it clear we had acceded to that request, of course.

Senator **Clark** [continuing reading]:

> Furthermore, all the institutions who have now carried the burden of this so-called demand loan for almost a year and a half, have been, as you know, most loyally cooperative with the American Treasury. They will continue to be so, and that statement, of course, includes each and every one of us. But I must say that on the whole I don't think those institutions are fairly treated when they are compelled to carry this burden indefinitely and yet not allowed to collect the loan by the only means manifestly possible, and so lighten the burden. Further, if the amount were so considerable that it really made a vital difference to the situation of the American Treasury, it would be different. While, of course, it is large, remaining at approximately the $220,000,000 figure (including the 90-day Treasury bills), yet it almost seems to me that it could be cleaned off without an undue strain upon our own Treasury.
>
> Looking at the other side of the picture, you have no idea how helpful it would be, as a constructive measure, to bury this dead horse completely, and once and for all. When a man takes on a loan as purely a demand obligation, and then finds it remaining as a permanent burden, it becomes after a while rather a sore point, and it isn't a good thing, as it strikes us, for either the British or the American Treasury to have this situation continue indefinitely. Furthermore, if the loan were cleared off, that would, as it seems to me, give us a good fighting chance to do something with the British maturity of $200,000,000 on September 1, or, at any rate, with a substantial part of it.

There comes in again, does it not, the suggestion once more made, that, if the demand loan were taken care of, some future maturity could be financed outside of advances from the United States Treasury.

Mr. **Lamont**. Oh, certainly. As we pointed out in that letter, the reason that the loan was in the shape that it was in, was because, of course, the United States Treasury had been unwilling—it stated specifically—to take it up; second, they had been unwilling to have us market the collateral on the thing, and, third, they thought market conditions made it difficult to float a refunding issue.

Senator **Clark**. Yes, sir; I can understand that.

The point I am making, Mr. Lamont, is this, that every time that they advanced we might say it was by echelon:

First they say: If you pay off the February 1 maturities, something can be done on something else. Then you come along and say if you can help on the demand loan, pay off the demand loan, then you can finance the September 1 maturities outside, probably. Then, the next thing, of course, all that talk is abandoned and the February 1 maturity is paid off.

The ultimate fact that I am getting at is that in the end of the thing the United States Treasury held the sack for the whole business.

Mr. **Lamont**. Oh, no, not at all; because they refused to pay another penny on these demand loans, and the balance of the demand loan was paid off entirely from the independent resources of the British Government.

Senator **Clark**. I did not mean to say that the United States Government ever did pay off the demand loan, but the United States

Government paid off the September 1 maturities, then they went right ahead making advances, and then they released the subrogation that they had had on the maturities.

Mr. LEFFINGWELL. Senator, I do not want to seem to be too precise, but when you say the United States Government paid these maturities, I want to remind you that what the United States Government did was to buy the obligations of the British Government.

Senator CLARK. Yes; they loaned their money to the British to pay their obligations. That is technically what they did. Of course, that is part of the present interallied debt.

Mr. RATHBONE. But they did not release the subrogated securities until the funding operations under Mr. Mellon's administration.

Senator CLARK. They did not formally, but they had previously agreed to practically release them and not to demand that the pledge be made and the securities be put up.

Mr. RATHBONE. No, no; that was not released.

Mr. LEFFINGWELL. No such agreement was ever made. It was discussed but it was never made.

Senator CLARK. I will come to that in just a minute. The United States decided not to demand the pledge.

Mr. RATHBONE. They did not demand the pledge, but they did not decide they never would demand the pledge.

Senator CLARK. That is apparently decided in the memorandum exchanged between the Secretary of the Treasury and various Assistant Secretaries, which will be put in the record in a very few minutes.

Mr. LEFFINGWELL. Senator, let us wait until that comes, but your impression of it is, I assure you, in my opinion quite incorrect. It never was decided not to exercise the right.

Senator CLARK. It never was exercised?

Mr. LEFFINGWELL. Right.

Senator CLARK. And after considerable consultation the Secretary of the Treasury wrote to the President explaining why it ought not to be exercised.

Mr. LAMONT. Senator Clark, completing the answer to your question, so far as we are concerned, it is perfectly true that we were urging the United States Treasury to see whether they could find a way to pay off any further demand loan, and we were constantly being told no. That is perfectly true.

Senator CLARK. I will finish the next paragraph of this letter, Mr. Lamont [reading from "Exhibit No. 3071"]:

> Of course, unless the demand loan is taken care of, there will be no chance at all to do anything with the September maturities, the reason being that, in order to try to handle a new issue, we must look for underwriters largely to the very same institutions that are now carrying the demand loan. The British issue due on September 1 is in the form of bearer bonds, scattered all over the country, and it is quite out of the question to look to them with any confidence to take a fresh obligation. They have been trained to well to buy Liberty bonds and nothing else. But if we could get the loan underwritten, then there would be a fair chance of gradually peddling it out to the investor and getting it well planted. A condition precedent, however, as I have explained, to the underwriting of any new British issue, is the liquidation of the present call loan.

(The document referred to was marked "Exhibit No. 3071", and is included in the appendix on p. 9470.)

Senator CLARK. I will now offer a letter to Lord Reading, signed J. P. Morgan. This is dated July 16. It is on the same subject discussed in your letter. It is rather confirmatory of it than otherwise.

I will read it; it will take but a minute [reading from "Exhibit No. 3072"]:

> In Washington last week you asked me for a definite answer to the following question:
>
> "(1) If the demand loan which the British Government now has with bankers should be paid off, would it be possible to form a syndicate to guarantee the sale of about $200,000,000 of British Government notes to meet the maturity of the $194,000,000 of secured notes due September 1?
>
> "(2) If such a syndicate could be made, what would have to be the terms and conditions of the new notes and what would be the price to the public and the cost of the money to the British Government?"
>
> In view of the need for care lest the public should fancy that there is any question as to the payment of the maturing notes, it has not been possible to make any very extensive inquiries—

By "maturing notes" he refers to the September 1 maturities, does he not, Mr. Lamont?

Mr. LAMONT. I should assume so.

Senator CLARK [continuing reading]:

> but after discussion with those best able to judge I can answer your questions as follows—

Then he goes on with practically the same thing you said in your preceding letter.

Mr. LAMONT. Yes; the creation by the American Government of a bond market.

Senator CLARK. Yes, sir. The same thing is set forth.

(The document referred to was marked "Exhibit No. 3072" and is included in the appendix on p. 9471.)

Senator CLARK. I offer a letter to Mr. Leffingwell from Lord Reading, transmitting the letter from Mr. Morgan, which I have just read.

(The document referred to was marked "Exhibit No. 3073", and is included in the appendix on p. 9472.)

Senator CLARK. I offer for the record a matter which I do not think is necessary to read, from Mr. Leffingwell. It is a memorandum for the Secretary dated June 10, 1918, having to do with the September 1 maturities.[1]

Mr. LEFFINGWELL. That should have gone in with the letter from Mr. Crosby.

Senator CLARK. That should have gone in a moment ago. It has been referred to here but not entered.

Mr. LEFFINGWELL. You read that this morning, did you not, Mr. Brown?

Senator CLARK. It was read but it was not put in the record.

Senator CLARK. I also offer a letter dated July 17, 1918, from Mr. Leffingwell to Hon. W. G. McAdoo, Director General of Railroads, Portland, Oreg. [reading "Exhibit No. 3075"]:

> Everything running smoothly here. Second issue of Treasury certificates oversubscribed. It may be desirable to make third issue for reduced amount, receipts from various sources having been larger than estimated. Reading will probably not be able to wait until your return. May I tell him that if it becomes necessary we will deal with September 1 maturity on lines similar

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[1] Previously entered as "Exhibit No. 2782", see supra, p. 8994.

to those adopted February 1. After making inquiry suggested by you, I am satisfied that we shall have to do this, and I think it would be very helpful in connection with certain other questions which, as you know, are under discussion if I could give this assurance at this time. Everyone anxiously inquires for you. I do hope you are quite restored. Warmest regards.

(The document referred to was marked "Exhibit No. 3075" and appears in full in the text.)[1]

Senator CLARK. I offer a telegram from Secretary McAdoo to Mr. Leffingwell, authorizing him to make the assurances to Lord Reading suggested in the preceding letter.

(The document referred to was marked "Exhibit No. 3076" and is included in the appendix on p. 9472.)

Senator CLARK. I offer a letter from Mr. Leffingwell to Lord Reading, dated July 23, 1918 [reading "Exhibit No. 3077"]:

DEAR LORD READING: I received your letter of July 18 with the enclosed copy of the letter addressed to you by Mr. Morgan in regard to the terms on which a public issue could be made on the market of a British Government loan. Secretary McAdoo authorizes me to assure you that if it becomes necessary the Treasury will be willing to deal with the notes of your Government maturing on September 1 on lines similar to those adopted with respect to the notes which matured on February 1.

Mr. Morgan told me that if this were done and if his firm had permission to liquidate the call loan gradually through sales of collateral pledged as security for it, made in consultation with you and with the United States Treasury, the call loan need give us no further concern.

I am, my dear Lord Reading,
Very truly yours,

(The document referred to was marked "Exhibit No. 3077" and appears in full in the text.)

Senator CLARK. I offer a letter from Mr. Leffingwell to Mr. Lamont dated July 27, 1918 [reading "Exhibit No. 3078"]:

DEAR LAMONT: I received your letter of July 3. I have since had a talk with Lord Reading and Mr. Morgan. Mr. Morgan said that if the United States Treasury were to loan money to the British Government to take up its notes maturing on September 1, and if your firm might liquidate the call loan gradually through sales of collateral pledged as security for it, made in consultation with Lord Reading and the United States Treasury, the call loan need give no further concern. It is possible that the matter will be disposed of in this way.
Very truly yours,

(The document referred to was marked "Exhibit No. 3078" and appears in full in the text.)

Senator CLARK. I offer a letter from Mr. Lamont to Mr. Leffingwell under date of July 29, 1918 [reading]:

DEAR LEFFINGWELL: Thanks very much for your letter of July 27. When Mr. Morgan returned and told me of his conference with you and Lord Reading, it seemed to me that the solution that you had tentatively arrived at was, all things considered, as feasible as any other plan that could be suggested. I think that if this plan is carried out it will help the general money-market situation somewhat, will enhance Great Britain's credit, and such effect as it will have on the impending Liberty loan will certainly be favorable. If it comes to the question of marketing securities, of course, you may rely upon the fact that we shall use the utmost circumspection in that regard.

(The document referred to was marked "Exhibit No. 3079" and is included in the appendix on p. 9472.)

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[1] There was no exhibit marked "No. 3074."

Senator CLARK. I offer a letter from the Chancellor of the Exchequer to Secretary McAdoo. It is simply a letter from Lord Reading thanking Secretary McAdoo for his authority to renew the September 1 maturities.

Mr. LEFFINGWELL. Is it from Lord Reading? You said the Chancellor of the Exchequer.

Senator CLARK. I should have said Lord Reading. He starts out: "The Chancellor of the Exchequer desires me to express his warm thanks to you."

Mr. LEFFINGWELL. It is really a communication from the Chancellor of the Exchequer.

Senator CLARK. I took that to be a communication from the Chancellor of the Exchequer.

Mr. LEFFINGWELL. That is right.

(The document referred to was marked "Exhibit No. 3080" and is included in the appendix on p. 9473.)

Mr. LAMONT. Here is a short cable that might complete that record contained in Mr. Leffingwell's letters. It is cable no. 79657 to Morgan, Grenfell & Co., London, dated July 30, 1918 [reading "Exhibit No. 3081"]:

> 79657. 73926. Are advised by Lord Reading through Sir Hardman Lever that we may begin sales of free collateral for the purpose of reducing the call loan, which now amounts to $128,000,000. Sales would, as heretofore, be made very carefully, with a view to avoiding any disturbance of quotations. He asks us to advise you and be instructed specifically to proceed.

Senator CLARK. I will be glad to have that included in the record.

(The document referred to was marked "Exhibit No. 3081" and appears in full in the text.)

Senator CLARK. The next exhibit is a cablegram from Mr. Leffingwell to Mr. Crosby through the American Embassy in Paris [reading]:

> Treasury 325. Embassy's 4719. August 9, 6 p. m. Your unnumbered of August 9. Have indicated to British our willingness to permit payment September 1 maturity from United States advances on lines similar to February 1 maturity including subrogation and on assurances from holder of demand loan or overdraft that it need not give us concern if they may gradually dispose of collateral as favorable opportunity offers. Will cable later regarding Metropolitan Water Board bonds.

(The document referred to was marked "Exhibit No. 3082" and is included in the appendix on p. 9473.)

Senator CLARK. Then a personal message from the Chancellor of the Exchequer to Mr. McAdoo, received by telegram August 18, 1918 [reading "Exhibit No. 3083"]:

> I have been hearing personally from Lord Reading of the arrangements which he made with you for meeting the British loan falling due on September 1.
>
> I wish to thank you most cordially for assistance which you are according me in this matter. Any other method of dealing with the maturity would have been most onerous, and your solution relieves me of anxiety and the British taxpayers of an additional burden.

(The document referred to was marked "Exhibit No. 3083" and appears in full in the text.)

Senator CLARK. The next exhibit is a letter from Secretary McAdoo to the President explaining the reasons for the action on the September 1 maturities and following maturities and following the lines of Mr. Leffingwell's memorandum.

(The document referred to was marked "Exhibit No. 3084" and is included in the appendix on p. 9473.)

Senator CLARK. The next exhibit is a memorandum from Secretary McAdoo to Mr. Leffingwell dated August 26, 1918 [reading]:

> I think it would be well to give the President an idea of the character of the collateral security for the British loan. The insertion could be made at the end of the first paragraph.
>
> I think it would be well also to say that it is necessary, in my opinion, to take up the British loan for the protection of our financial situation. * * *

In other words, directions to Mr. Leffingwell for preparing a letter to the President.

(The document referred to was marked "Exhibit No. 3085" and is included in the appendix on p. 9474.)

Senator CLARK. I offer a letter dated August 26, 1918, from Secretary McAdoo to Mr. Colville Barclay, Chargé de Affaires of the British Embassy, answering the letter of thanks from the Chancellor of the Exchequer. It says:

> DEAR MR. BARCLAY: Will you be good enough to convey to the Chancellor of the Exchequer the following personal message from me:
>
> "Your cordial message regarding the arrangements made for meeting the British loan, which falls due Steptember 1, is very gratifying to me. You will I am sure, understand that the considerations which governed me last winter made it necessary that I should stipulate that the advance to be made to meet the September 1 maturity should be made on the same conditions, including the subrogation of collateral, as those upon which the advance was made to your Government to meet its February maturity. Warm congratulations on the splendid work the British Army is doing."
>
> Cordially yours,

(The document referred to was marked "Exhibit No. 3086" and appears in full in the text.)

Senator CLARK. I offer a letter from J. P. Morgan & Co. to the Guaranty Trust Co. of New York, 140 Broadway, New York, dated September 13, 1916 [reading "Exhibit No. 3087"]:

> DEAR SIRS: We beg to enclose copy of a letter received by our London house, Messrs. Morgan, Grenfell & Co., from the Treasury, advising that the proceeds of $6,400,000 Metropolitan Water Board bills discounted with yourselves are to be paid over to us for account of British Government Treasury on the 18th instant.
>
> You will observe that the Treasury wish to have advise of the receipt of this money in time to place the sterling equivalent to the credit of the Metropolitan Water Board in London on the same day. We shall be glad, therefore, if you can make arrangements for the early payment of the money to us so that we may cable promptly to London.
>
> Yours very truly,

(The document referred to was marked "Exhibit No. 3087" and appears in full in the text.)

Senator CLARK. The Metropolitan Water Board bills, Mr. Lamont, were an issue of a London municipal corporation or private corporation sold in this country for the benefit of the British Government, were they not?

Mr. LAMONT. I do not remember; I am sorry.

Senator CLARK. Then I will read a letter from Mr. Leffingwell to Lord Reading, dated July 30, 1918, in which he says [reading "Exhibit No. 3088"]:

> DEAR LORD READING: I notice an item in one of the New York papers to the effect that the British Treasury has authorized the Metropolitan Water Board to

issue 1,300,000 pounds sterling in bills at London to meet $6,300,000 in gold notes maturing in New York in September. I would be obliged if you will inform me in regard to this matter, as it seems to me that the result of the operation indicated would be a loan from the United States Government to the British Government of the amounts needed to pay the obligations of the Metropolitan Water Board above mentioned.

I am, my dear Lord Reading,
Very truly yours,

(The document referred to was marked "Exhibit No. 3088" and appears in full in the text.)

Senator **Clark**. That was the effect of it, was it not, Mr. Leffingwell?

Mr. **Leffingwell**. What did he answer? I was calling on him to tell me what was the effect of what he was proposing to do. What did he answer? It shows we were following him closely.

Senator **Clark**. It is answered by Mr. Blackett.

The next exhibit I offer is a telegram from Paris from Mr. Crosby to Secretary McAdoo, August 9, 1918 [reading "Exhibit No. 3089"]:

4719, August 9, 6 p. m. For McAdoo from Crosby. Understanding from Guarantee Trust Co., London, that they have received notification that the six million three hundred thousand Metropolitan Water Board bonds maturing September 18, will be repaid, as this is in fact a government loan. The question arises as to what funds they will use to effect repayment. Please advise me on this, and also as to whether negotiation was completed with Lord Reading before his departure re British loan maturing September 1st. **Sharp.**

(The document referred to was marked "Exhibit No. 3089" and appears in full in the text.)

Senator **Clark**. I offer a letter addressed to Mr. Leffingwell by Basil B. Blackett, for the Financial Secretary to the Treasury, dated August 9, 1918 [reading "Exhibit No. 3090"]:

My Dear Mr. Leffingwell: In reply to your letter of July 30, addressed to Lord Reading, I am informed that the statement to which you refer is correct and that the British Treasury had authorized the Metropolitan Water Board to pay off the $6,300,000 1-year bills maturing in New York on September 18. The British Treasury proposes to find the dollars required in this connection not out of United States advances but out of sums received in respect of the sale of wool. In this connection I refer to Sir Hardman Lever's letter of May 9, reporting the receipt of $10,650,299.52 on account of wool sold to the United States Government.

I am, dear Mr. Leffingwell,
Yours sincerely,

(The document referred to was marked "Exhibit No. 3090" and appears in full in the text.)

Senator **Clark**. To that you reply, Mr. Leffingwell, in a letter dated August 13, 1918, addressed to Mr. Blackett [reading "Exhibit No. 3091"]:

My Dear Mr. Blackett: I am in receipt of your letter of August 9 advising that the British Treasury has authorized the Metropolitan Water Board to pay off the $6,300,000 1 year's bills maturing in New York on September 18, and that the British Treasury proposes to find the dollars required out of sums received from the sale of wool, and not out of United States advances. The Treasury Department, however, regards it as a fundamental principle that proceeds of sales of imports into the United States controlled by the British Government should be applied to meet British expenditures in the United States and that United States advances in respect to such expenditures should not be asked except to the extent that the amount may exceed the funds available from the sale of imports.

On referring to Sir Hardman Lever's letter of May 9 and the accompanying statement, I note that Sir Hardman Lever treated the sum of $10,659,299.52 as a part of the funds available to meet dollar expenditures of the British Treasury for April, and I note also that during that month the exchange purchases amounted to $14,960,148.73.

The principle above-stated is, of course, equally applicable whether British expenditures do or do not include exchange purchases, but its applicability is particularly clear where purchases of exchange exceed the proceeds of the imports as in this case.

Had the wool been paid for in sterling through commercial channels the price thereof would have gone to reduce the item of exchange purchases. Therefore, it is evident that the payment for the wool in dollars should go to reduce the dollar borrowings to meet exchange purchases, and cannot be considered as constituting an available balance of the British Government.

I feel, therefore, that the position as to the proposed transaction is as stated in my letter of July 20 to Lord Reading.

Yours very truly,

(The document referred to was marked "Exhibit No. 3091" and appears in full in the text.)

Senator **Clark**. I offer a telegram from Mr. Leffingwell to Mr. Crosby, dated August 14, 1918, which reads as follows:

For Crosby from Leffingwell. Treasury 333. Supplementing our 325. British have just advised they intended to pay Metropolitan Water Bonds from proceeds wool sold United States Government. Have advised British we regard it as a fundamental principle that proceeds sale of British Government imports into United States should be applied to meet British expenditures therein and advances in respect to such expenditures should not be asked except as amount of expenditures exceeds amounts realized from imports.

(The document referred to was marked "Exhibit No. 3092" and appears in full in the text.)

Senator **Clark**. Then a letter dated August 29, 1918, signed by Mr. Leffingwell and addressed to Sir Hardman Lever [reading "Exhibit No. 3093"]:

August 29, 1918.

Dear Sir Hardman: Mr. Rathbone has told me of your talk with him on the 20th instant in relation to the payment of the Metropolitan Water Board bonds which mature next month and are guaranteed by the British Government. I wrote Lord Reading on July 30, 1918, in regard to this subject and Mr. Blackett's reply under date of August 9 I answered on the 13th instant.

I do not understand that the proceeds of wool sold in the United States or the proceeds resulting from the sale of exchange constitute any separate fund from which obligations for the payment of which your Government is responsible may be paid without previous consultation with the United States Treasury while the United States is making advances to your Government to cover the balance of your Government's requirements. As the date of maturity of the obligations of your Government, which become due September 1, approached this subject was taken up and discussed with the result with which you are familiar, and I regret that the same procedure was not followed in the case of the Metropolitan Water Board bonds.

I am, my dear Sir Hardman,

Very truly yours,

(The document referred to was marked "Exhibit No. 3093" and appears in full in the text.)

Senator **Clark**. Now that indicates, Mr. Leffingwell, you were up against a situation you have been up against before in the case of the payments from the Danish loan, that you were confronted with something that had already been done and could only protest against it.

Mr. **Leffingwell**. A fait accompli.

Senator **Clark**. Yes; the same thing happened a little bit later in the case of the English Sewing Cotton Co. amounting to $4,900,000, a loan maturing on December 2, 1918, in which the British went right ahead and did as they pleased before you could find out about it or have anything to say about it. Is not that correct?

Mr. LEFFINGWELL. I cannot remember that.

Senator CLARK. I understand the record shows that, and it will be placed in the record.

Mr. LEFFINGWELL. What was that date? What was that transaction?

Senator CLARK. The English Sewing Cotton Co., $4,900,000.

Mr. LEFFINGWELL. You are coming to that in due course, are you, Senator?

Senator CLARK. It is shown in the British Treasury Account, Mr. Leffingwell. I propose to make a reference to it and not go into details on it. It is exactly the same transactions as this one.

Mr. LEFFINGWELL. The same thing?

Senator CLARK. Here we come to the question of the February 1, 1919, maturities. That was after the war was completed, and the British were still asking that the United States Government finance their maturities and make advancements to them.

I will now place in the record a letter from Mr. Norman H. Davis to Mr. Rathbone, dated in London on the 6th of December 1918 [reading "Exhibit No. 3094"]:

DEAR RATHBONE: Keynes told me yesterday that Lever had reported an interview with you and your refusal to advance funds to take on their February 1 maturities. He seemed very much worried about it and stated, in substance, that they could not possibly be in a position to pay this off by that time, and that he thought we ought to make the advance. I told him that this was essentially a matter which must be handled in Washington, because the changed conditions had necessarily altered the position of the Treasury. I assume that you naturally doubt the power of the Secretary of the Treasury or the advisability of making such an advance. It seems to me that they should be able to float a renewable loan in the United States, provided this does not conflict with any of Leffingwell's plans for domestic finance. Keynes took the position that even in normal times the only possible way they could pay this off would be to sell sterling against dollars or to ship gold, and that as they have to apply all of the dollars received from the sale of sterling to meet their purchase requirements and that as they cannot spare the gold, it is rather difficult to know what to do. I merely call your attention to the fact that if they cannot place a new loan and you wish to assist them in the matter, our Army will owe the British, according to present estimates, about $400,000,000, a part of which might be applied for the above purpose. I realize that this would be a certain camouflage if they are still borrowing from us at the time these accounts are paid. I do not remember the class of securities that are back of this loan or how rapidly they could be sold to pay off the loan, but it had occurred to me that you might make a definite short-time loan against those securities for later treatment, but, not knowing the conditions at home, I could not give a definite opinion, even if it were desired.

Another word about Italy: I am told our total pre-war exports to Italy amounted to about $160,000,000 per annum. If this is correct, it would seem that, aside from advancing them the money to liquidate their war contracts in the United States, and the $90,000,000 already advanced for wheat, they should not require very much more from us.

I enclose herewith copy of a letter and statement received from the British Treasury regarding Italian neutral expenditures.

Sincerely yours,

(The document referred to was marked "Exhibit No. 3094" and appears in full in the text.)

Senator CLARK. It was found actually necessary, was it not, Mr. Leffingwell—or Mr. Rathbone, I believe you handled this matter—to underwrite the conversion of the issue maturing February 1, 1919?

Mr. RATHBONE. I did not get the question.

Senator CLARK. I said, in spite of Mr. Davis' pessimism and regardless of the reluctance of the Treasury Department, it was found possible or necessary to underwrite the conversion of that issue?

Mr. RATHBONE. We thought things were getting back to normal, and that the British normal method ought to take care of that problem, and we refused to advance the money.

Senator CLARK. You did more or less underwrite it, did you not?

Mr. RATHBONE. I do not think so.

Mr. LEFFINGWELL. Oh, no; the United States Treasury refused point-blank to do that.

Senator CLARK. I beg your pardon?

Mr. LEFFINGWELL. The conversion, I think, was underwritten by the bankers.

Senator CLARK. It was underwritten by Morgan & Co.?

Mr. LAMONT. And our associates; yes.

Senator CLARK. Yes. Well, I mean the group headed by Morgan & Co.

Mr. LAMONT. Quite.

Senator CLARK. I was in error about that, Mr. Rathbone. I was referring to a memorandum here that had to do with another matter.

I offer a letter of Mr. Rathbone to Sir Hardman Lever, declining on behalf of the Treasury.

(The document referred to was marked "Exhibit No. 3095" and is included in the appendix on p. 9475.)

Senator CLARK. I offer a letter from Morgan & Co. to the First National Bank, dated January 21, 1919.

(The document referred to was marked "Exhibit No. 3096" and is included in the appendix on p. 9476.)

Senator CLARK. I also offer a letter dated February 6, 1919, from J. P. Morgan & Co. to the First National Bank.

(The document referred to was marked "Exhibit No. 3097" and is included in the appendix on p. 9476.)

Mr. LAMONT. Are they of any interest, Senator?

Mr. BROWN. They are merely the terms of the underwriting of the conversion.

Mr. LAMONT. Oh, yes. Thank you.

Senator CLARK. I will have them included in the record, and will be glad to have you read them if you desire.

Mr. LAMONT. If they are simply routine, never mind.

Senator CLARK. I now offer a letter to Mr. Rathbone from Sir Hardman Lever, an offer to substitute certain securities, in the subrogated account, and dated January 18, 1919. I do not think it is necessary to read it.

(The document referred to was marked "Exhibit No. 3098" and is included in the appendix on p. 9477.)

Senator CLARK. I also offer Mr. Rathbone's answer, in which he states that it is the understanding [reading from "Exhibit No. 3099"]:

> It is the understanding of this Department, however, that the rights of the Secretary of the Treasury are to be precisely the same in respect to these securities as in respect to those which are to be released; that the rights of the persons to whom the British Government are under moral obligations in respect thereof are wholly subordinate to the rights of the Secretary of the Treasury in respect thereto, and that the British Government is solely responsible regarding the moral obligations referred to with which the Secretary of the Treasury is not concerned.

(The document referred to was marked "Exhibit No. 3099" and is included in the appendix on p. 9477.)

Senator CLARK. I offer the formal agreement, dated the 8th of July 1919, or rather, the offer of formal agreement on behalf of Sir Hardman Lever to subrogation.

This was a memorandum of the agreement, and I also offer the acceptance of the same.

I call attention to the fact that this agreement was executed July 8, 1919, and nearly a year and a half after the original subrogation agreement had been made.

(The documents referred to were marked "Exhibit No. 3100" and "Exhibit No. 3101", respectively, and are included in the appendix on pp. 9478 and 9480.)

Senator CLARK. I offer a letter from Mr. Blackett to Mr. Rathbone, offering further substitution in the substituting of collateral, and a letter from Mr. Rathbone discussing the matter, and setting up certain objections to it.

(The documents referred to were marked "Exhibit No. 3102" and "Exhibit No. 3103", respectively, and are included in the appendix on pp. 9480 and 9481.)

Senator CLARK. I now come to the discussion of the matter in the Treasury Department, a memorandum for the Secretary initialed by Mr. Davis, dated November 21, 1919, in which he discusses the whole status of the subrogation [reading "Exhibit No. 3104"]:

Memorandum for the Secretary:

At the time of the passage of the First Liberty Bond Act, Secretary McAdoo informed the Ways and Means Committee of Congress that it was intended that the loans authorized to be made to foreign governments would be only for the purpose of enabling them to make purchases in the United States and not for purchases elsewhere or for commitments in the United States incurred before our entrance into the war. On February 1, 1918, there became due about $92,000,000 of an issue of 1-year 5½-percent secured notes of Great Britain. The security of these notes was a large amount of foreign securities which either were owned by the British Government or had been lent the British Government by its citizens upon certain understandings as to their return. Secretary McAdoo was satisfied that the notes could be refunded upon our markets in the then existing situation only at a rate of interest so high and secured by so great an amount of collateral as would gravely impair the credit of Great Britain and the ability of the United States to carry through successfully its own financing. At the same time the progress of the war had resulted in a diminution of the resources of the United States and the Allies in the financial markets of neutral countries and dollars were at a considerable discount. In these circumstances control by the United States Treasury over the foreign securities owned by the British and held in this country was a matter of importance to us. The Treasury, therefore, assented to the use by the British of United States advances to meet the $92,000,000 maturity February 1, 1918.

Such assent was given, however, upon the understanding that the Treasury should be subrogated to the rights of the noteholders in respect of the collateral security and upon the further undertaking by the British Government to hold available for use in such manner as should be agreed upon between the British and the Secretary of the Treasury until the termination of the war the other foreign securities which the British Government owned and controlled and which were on February 1, 1918, physically within the United States. About $193,000,000 of British 2-year 5-percent secured gold notes matured September 1, 1918. With the greatly increased program of our own expenditures at that time and the tremendous issues of Treasury certificates which were then being made, the Treasury considered it impossible for the British to finance a renewal of this loan on reasonable terms and thought that it would be unwise for the Treasury to permit the British to resume sales of American securities as this would have a very depressing effect on the market for securities and would tend to make it difficult for us to get the money we needed ourselves. The Treasury also thought that if it stood firm in the position that it would not finance expenditures of the Allies in neutral markets and British dependencies, we might well provide for the financing of the Allied maturities in this market, since that was no strain upon our own financial resources, because no money went out of the country and by paying off the maturities we released credit for our own purposes. The Treasury also considered that borrowing by the British Government in our markets on extortionate terms would be injurious to British credit, would create an unfavorable impression as to the extent of sympathy between the two Governments and would impair our own position, because of the shadow it would throw upon the credit of our largest debtor.

The Treasury, therefore, assented to the use by the British of United States advances to meet the maturity of September 1, 1918, upon the same conditions as in the case of the February maturity. Subsequently, in December 1918 and January 1919, the Treasury made arrangements with the French Government by which the French Government should, out of United States advances, meet maturities on April 1 and July 31, 1919. In the case of the French Government, however, the Treasury did not require that it be subrogated to the rights of the noteholders in the collateral security, but an understanding was entered into that the French Government would make the securities available for use in neutral countries if the Treasury so required. While the principle of subrogation was agreed upon at the time of making the advances, the actual arrangement in respect of the British collateral was not defined in writing until July 8, 1919, under which date Sir Hardman Lever wrote Mr. Rathbone on the subject at length. Copies of this letter and of Mr. Rathbone's reply are attached. It will be noted that the arrangement as defined in Sir Hardman Lever's letter is a promise by the British Government to deposit the collateral to secure payments, respectively, of $91,931,000 and $192,842,000. The Treasury has not requested such deposit, and no such deposit has been made. The right of subrogation is not connected with any particular British obligations held by us, and the obligations, the proceeds of which were used to meet the British maturities, are not identified. The securities against which such right of subrogation may exist may, under the terms of Sir Hardman Lever's letter, be changed from time to time, and, in fact, before the letter was written, many changes had been made in them. Technically and legally, there is not yet a pledge of the securities which are subject to the right of subrogation, although the promise of the British Government to deposit them at the request of the Treasury is, of course, good. Mr. Rathbone, in his cable no. 35, advised that conference with Blackett has developed that the British are concerned over their situation regarding the borrowed securities which are subject to our right of subrogation and fear the political effect if arrangements are now made for payment of any of their loans to us without corresponding arrangements for collecting similar sums from Allied Governments indebted to them.

There was the first suggestion that the British loans to their allies were connected with our loans to the British, was it not, Mr. Rathbone?

Mr. RATHBONE. I would hate to say just when that suggestion was first made. It was made several times by several different people. As far as the Treasury was concerned, it was always repudiated as strongly as we could.

Senator CLARK. As far as a careful examination has developed, this is the first suggestion in the Treasury files to that effect [continuing reading "Exhibit No. 3104"]:

The existence of our claim against the British securities here must greatly embarrass British financing in this country, thus adding an important factor to the depression of sterling exchange. This tends to weaken further all other exchanges, reduces Europe's power to purchase American products, and adds to the pressure on us to incur commitments to help the exchange situation.

That is the old suggestion again, is it not, Mr. Rathbone, that we ought to lend money to Europe to buy goods from us, even if the money is never repaid?

Mr. **Rathbone.** I do not quite get that.

Senator **Clark.** The way these large obligations were incurred was on the theory that we should continue to lend money to Europe to buy goods from us.

Mr. **Rathbone.** Do you mean, after the war?

Senator **Clark.** Before the war, during the war, and after the war, that we should lend money to the people in Europe to buy goods from us, on the theory that that adds to the prosperity of the United States. But it has never appeared that it adds to the prosperity of anybody to lend somebody money to buy goods from him if he loses the goods and does not get his money back.

Mr. **Leffingwell.** That is true. But, Senator, "even though that money is never repaid", just that single phrase—of course, we tend as we think of these things to collapse 15 or 20 years in human experience. At the particular moment that Mr. Davis was writing that memorandum, he was writing it commenting upon a cable from Mr. Rathbone.

Senator **Clark.** I understand that.

Mr. **Leffingwell.** Mr. Rathbone was over in Europe for the express purpose of arranging a funding agreement with Great Britain which contemplated in the utmost seriousness on the part of both Governments that that money would be repaid.

Senator **Clark.** I understand that.

Mr. **Leffingwell.** Of course, we know now it is not now being repaid.

Senator **Clark.** I do not contend that a man ought to be criticized for his views from a vantage point of 20 years. I am not criticizing Mr. Davis in any respect. I am pointing out that that theory has in experience proved to be a great fallacy.

Mr. **Leffingwell.** That is true now. We were thinking then in terms of a definite and very advantageous settlement, a permanent settlement of the debts, which Mr. Rathbone had gone over there to discuss; and what he was discussing was the permanent solution of the debt problem so far as regards 5 billion dollars of British debt to the United States. This memorandum related to a suggestion that it might be well to use as a trading point in connection with that settlement of 5 billion dollars, the British anxiety in regard to security for $285,000,000.

Senator **Clark.** I understand that, Mr. Leffingwell, but what we are trying to do is to apply the lessons of the past for guidance in the future, not to point out that certain matters have in the light of after events turned out to be a mistake.

Mr. **Leffingwell.** That judgment of ours in 1919 that this was a serious debt settlement that was under discussion was maintained until 1931, that is, for 12 years, although there was a delay for a period granted by the United States. There never was any default for 12 years afterward on the British debt.

Senator **Clark.** That is true.

Mr. **Leffingwell.** So it was a very serious debt proposal that Mr. Rathbone was discussing in Europe.

Senator **Clark** (concluding reading "Exhibit No. 3104")

The amount of security obtained by exercising the right of subrogation would be insignificant compared with the total amount of British indebtedness to us. The reasons which led the Treasury to obtain the right of subrogation were (1) that it was desirable, in view of the statements made to Congress as to to purposes for which loans were intended to be made, that the permission to use United States advances for meeting maturities should be upon an understanding which made the loans so used clearly different from our other loans to Great Britain, and (2) that it was desirable at that time to obtain a certain control over foreign securities for use in meeting requirements which we were then expecting in neutral countries. Mr. McAdoo explained the matter to Congress in connection with the Fourth Bond Act and after we had assented to the use of our advances to meet the British September 1 maturity. Our exchange on neutral countries has righted itself. The reasons for which the right of subrogation was accepted, therefore, no longer exist. It is desirable, consequently, to release our claim upon British securities arising out of that right. Although the Treasury is not bound to take security for the loans which it makes to foreign governments, I am inclined to believe that if it does take security, it has not power, without further authority from Congress, to release the security before the loan is paid. I am inclined to the opinion, however, that the present right to subrogation is not a security, but is rather a right to obtain security, and that the Treasury does not require authority from Congress in order to refrain from exercising the right, and, therefore, that the matter can properly be disposed of at the proper time by advising the British that we shall not request them to deposit the securities. If you should consider it inadvisable to forego our right to obtain this security, then we should so notify Britain. We should, however, in my opinion, then inform them also that the first amounts received in payment of obligations held by us will be considered as applying toward the amounts in respect of which we have a right of subrogation, and that right of subrogation will be released in a proportionate amount of collateral as payments are made. Since the date of Sir Hardman Lever's letter, the British have paid $57,164,000 on their obligations held by the Treasury. I think that this payment may be so treated as was apparently contemplated by Sir Hardman Lever's letter. This would leave a balance of $227,610,000. If you agree with the foregoing, I think it would be advisable to obtain the views of Mr. Rathbone, who is more familiar with the matter than anybody here. Attached is a cable to him which I have prepared on this subject for your signature if you approve.

N. H. D.

(The document referred to was marked "Exhibit No. 3104" and appears in full in the text.)

Mr. LEFFINGWELL. If that particular suggestion of Mr. Davis' had been incorporated in the funding agreement which Mr. Rathbone had under consideration, then it would be true that those advances to Great Britain had been paid, because Great Britain did, in fact, even under the modified debt settlement which went through, pay to the United States Government a sum which in the aggregate amounted to something like 2 billion dollars, and $450,000,000 was principal indebtedness. That all is in support of the view that the Treasury officials at that time were considering a very serious proposal for the payment by Great Britain of her indebtedness to the United States, which Great Britain took seriously.

Senator CLARK. Undoubtedly the British Government has paid the United States more than the amount of the subrogated indebtedness.

I offer now a memorandum for the Secretary from Mr. Leffingwell. It is substantially along the same lines as Mr. Davis', and I do not think it is necessary to read it.

(The document referred to was marked "Exhibit No. 3105", and is included in the appendix on p. 9482.)

Senator CLARK. I now offer a cablegram to Mr. Rathbone from Senator Glass on the same subject, which I do not think it is necessary to read because it follows in the main almost verbatim the language of Mr. Davis' memorandum.

(The document referred to was marked "Exhibit No. 3106", and is included in the appendix on p. 9483.)

Senator **Clark**. I also offer a cablegram to Mr. Rathbone from Mr. Davis, being further negotiations along the same subject.

(The document referred to was marked "Exhibit No. 3107", and is included in the appendix on p. 9484.)

Senator **Clark**. I also offer in evidence a cablegram from Mr. Rathbone in London to the Secretary of the Treasury, having to do with negotiations on the same subject.

(The document referred to was marked "Exhibit No. 3108", and is included in the appendix on p. 9484.)

Senator **Clark**. I now offer a further letter in connection with the same matter, being a letter to Mr. Rathbone from Mr. Basil Blackett, in which he asserts the principle that the British lenders have superior rights in these subrogated securities to the American Treasury. I do not think it is necessary to read the exhibit.

Mr. **Rathbone**. Of course, we cannot help what they asserted.

Senator **Clark**. I understand that.

(The document referred to was marked "Exhibit No. 3109", and is included in the appendix on p. 9485.)

Senator **Clark**. I also offer the letter of Mr. Rathbone to Mr. Blackett, dated January 15, 1920, in which you reject that contention.

(The document referred to was marked "Exhibit No. 3110", and is included in the appendix on p. 9486.)

Senator **Clark**. I also offer a letter from Mr. McAdoo dated February 25, 1920, to Secretary Houston of the Treasury, inquiring as to what had become of what he speaks of as three or four hundred million dollars which had been subrogated to claims.

(The document referred to was marked "Exhibit No. 3111" and is included in the appendix on p. 9487.)

Senator **Clark**. The next exhibit is the letter of Secretary Houston in answer, setting forth the position and contentions of the Department as heretofore set forth.

(The document referred to was marked "Exhibit No. 3112" and is included in the appendix on p. 9487.)

Mr. **Rathbone**. I would like to say something about that subrogation at an appropriate time when you get through with your papers.

Senator **Clark**. All right; in just a minute I will be glad to hear you.

The next exhibit is Mr. Davis' memorandum, from which Secretary Houston's letter was written.

(The document referred to was marked "Exhibit No. 3113" and is included in the appendix on p. 9488.)

Senator **Clark**. I offer a cablegram to Mr. Rathbone from Secretary Houston. It is not necessary to read the whole cablegram as it will be inserted in the record, but the last paragraph explains the failure of the agreement as to subrogation. He says:

> In this connection and referring to our R–114 from Glass and our R–163, paragraph 15, and your R–354, it is my understanding that no concession will be made concerning rights of subrogation in respect of British securities except as part of comprehensive settlement of all pending questions.

(The document referred to was marked "Exhibit No. 3114" and is included in the appendix on p. 9489.)

Mr. **Rathbone**. That was my understanding, too.

Senator CLARK. You were unable to get a comprehensive settlement from the British of pending questions, and therefore the actual agreement as to the release of subrogation was not made until 1923, when the comprehensive agreement was entered into, is that correct?

Mr. RATHBONE. The debt settlement? Yes, that is true, the subrogation rights were retained.

Senator CLARK. I offer a cablegram to Mr. Rathbone from Mr. Davis, on the same general subject.

(The document referred to was marked "Exhibit No. 3115" and is included in the appendix on p. 9489.)

Senator CLARK. I offer for the record appropriate sections of the agreement that was finally made between the United States and Great Britain, which was the subject of discussion here this afternoon, the terms on which the United States could receive bonds.

Mr. RATHBONE. That was not the agreement that I was trying to negotiate.

Senator CLARK. No, this was the one that was negotiated in 1923.

Mr. LAMONT. The full agreement, or just that section?

Senator CLARK. Sections 11 and 12.

Mr. LAMONT. Would it be well to have a full agreement, do you suppose?

Senator CLARK. I will be glad to insert it, but I do not happen to have it.

Mr. LAMONT. It is not a matter that concerns J. P. Morgan & Co. in any sense.

(The document referred to was marked "Exhibit No. 3116" and is included in the appendix on p. 9490.)

The CHAIRMAN. Gentlemen, are you prepared at this time to indicate what exhibits you would like to offer for the record?

Mr. LAMONT. I will ask Mr. Wardwell to answer that.

Mr. WARDWELL. I would suggest that you permit us to have entered into the record anything that your representative, Mr. Brown, particularly, and we could agree upon. I think we would have no difficulty. We are quite willing to check that with Mr. Brown, either tonight before we go or, if necessary, tomorrow morning.

Senator CLARK. Mr. Brown suggests that he is willing to do that tonight or tomorrow morning.

Mr. WARDWELL. We could go right on with it to a very considerable extent right now. If we cannot finish it tonight, we can do it tomorrow morning.

The CHAIRMAN. Let it be a matter of record that the Committee will refer to Mr. Brown and Mr. Wardwell the determination of the additional exhibits that are to be offered for the record.[1]

Mr. WARDWELL. I think the most are merely formal cables that may complete the story a little better; no substantial change of any kind.

The CHAIRMAN. There is nothing that will prevent these entries being made before our hearing tomorrow morning?

Mr. WARDWELL. No.

The CHAIRMAN. We want them to run in order of course.

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[1] See "Exhibits No. 3118 to 4261" re wartime and post-war financing, Hearings, Parts XXX to XXXV, inclusive.

Mr. LEFFINGWELL. Senator Clark may I ask one question?

Senator CLARK. Yes; certainly.

Mr. LEFFINGWELL. In the memorandum which the chairman accepted from me earlier in the day, I made reference to the fact that the Rathbone proposed debt settlement, which was under discussion in 1919 and 1920, was reported to the Finance Committee of the Senate by Assistant Secretary Wadsworth, acting under Secretary Mellon, in 1921; also, that the Mellon debt settlement, which actually took place, the Rathbone settlement having fallen through, was reported in the annual report of the Secretary of the Treasury for 1923, and attached to that annual report was the release by Secretary Mellon as Secretary of the Treasury and as Chairman of the Debt Funding Commission of the subrogated securities. I do not know whether you care to put those in your record.

Senator CLARK. I will be very glad to put them in, Mr. Leffingwell.

Mr. LEFFINGWELL. They are in the annual report. I have a copy here. I have not a loose copy, and I would hate to lose my copy of the report, but I offer it to you. There is that very short letter in connection with it.

(The document referred to was marked "Exhibit No. 3117" and is included in the appendix on p. 9491.)

The CHAIRMAN. How much of this collateral was actually sent back home?

Mr. LEFFINGWELL. I suppose, when the Mellon debt settlement was made in 1923, which is reported in the annual report for 1923, the collateral was released.

Senator CLARK. As a matter of fact, by the time they got along to 1923, the collateral had been very, very materially changed, had it not, Mr. Leffingwell?

Mr. LEFFINGWELL. Oh, yes. Its value——

Mr. RATHBONE. By substitutions.

Senator CLARK. The British had taken out some very marketable securities and replaced them with securities which were of less value.

Mr. LAMONT. Oh, no.

Mr. RATHBONE. I do not think so.

Mr. LAMONT. The Treasury can answer that, but so far as J. P. Morgan & Co. were concerned, they were charged with a serious responsibility for safeguarding the securities and for suggesting substitutions as certain securities were redeemed or utilized in other ways. Always the greatest possible care was utilized to see that the substituted securities were the same class and same value as those taken out.

Senator CLARK. The thing that caused me to make that remark, Mr. Lamont, is that it is a fact that there had been a great increase in the collateral of securities of the British dominions, had there not?

Mr. LAMONT. I do not recall, Senator. I do not recall the details. I only recall the correspondence with the Treasury Department, which laid down the general rules that should be followed and which were followed by us so far as we were concerned.

Mr. RATHBONE. There was certainly that general rule laid down by the Treasury that we would consent to substitutions only if the values were not impaired and the marketability of the securities was generally about the same.

What I wanted to say about subrogation was this——

The **Chairman**. Just a moment, before we go on to that. How much was actually sent back, how much collateral?

Mr. **Leffingwell**. Senator, I left the Treasury at the end of June 1920. So did Mr. Rathbone. Such changes and exchanges as were made subsequent to that time left the account in a position of which I am not informed in 1923, 3 years later, but I assume that there remained subject to the agreement of subrogation up to the time of the agreement of funding made by Secretary Mellon and the World War Debt Funding Commission, an amount of collateral in value equal to that which was stipulated for at the time that the securities were subrogated.

The **Chairman**. You understand that to have been in excess of $290,000,000?

Mr. **Leffingwell**. I assume it to have been.

Mr. **Rathbone**. $285,000,000.

Senator **Clark**. In regard to the matter of changing the securities in the collateral, I call attention to the fact that between 1921 and 1923 there were £24,300,000 of New Zealand securities, £9,000,000 of South African securities, and £9,500,000 of Australian securities added, a total of £45,532,823 of securities of those three dominions alone. That would seem to be a substitution of a very large item of one particular class of securities, namely, dominion securities, which would be in the same class as the British Government itself.

Mr. **Rathbone**. Of course, Mr. Leffingwell and I—neither of us was in the Treasury during that period, so we cannot answer.

Senator **Clark**. We are making a record here, and not gunning for you and Mr. Leffingwell, we want you to understand that.

Mr. **Rathbone**. What I wanted to say about the subrogated securities in a word was this:

We advised—when I say "we" I mean Mr. Leffingwell and myself advised—the release of the subrogated securities only if we got a debt settlement of the kind we wanted.

There were very much bigger things involved in that debt settlement than security for $285,000,000; for instance, whether the rate of interest would be—I am using arbitrary figures—1 percent or 2 percent, would have made a great deal bigger difference than that amount.

Also, whether we would have the right, under our debt settlement, to get British obligations payable in pounds or payable in dollars, as we should elect, so that we could sell them to the nationals of this country or the nationals of Great Britain. It was also a very important element.

Another important element was the Pitman silver advances, which, as you know, amounted to about $200,000,000. One of the terms of that settlement which I tried to negotiate was that the Pitman silver advances of $200,000,000 to the extent they had not been already paid should be paid out in 5 years. The British carried out that agreement. That is the only successful agreement I negotiated.

We did get all of that $200,000,000 paid back within approximately a 5-year period.

The **Chairman**. Anything further?

Mr. **Brown**. You asked a question, Senator Nye, about the amount of collateral, and the account shows $314,000,000 was the amount of subrogated securities returned at the time of the debt settlement.

The **Chairman**. That statement will become a part of the record.

Mr. **Rathbone**. It was collateral for $283,000,000 or $284,000,000 of indebtedness.

Mr. **Leffingwell**. Which means, of course, that the United States Treasury was limited as to the amount that it could collect out of the securities, whatever was their value, to $285,000,000. But it also shows that, if it is true that that figure is correct, there was a margin in those securities which was more than ample at the time of the debt settlement in 1923 to cover that debt. But we are now speaking, Mr. Rathbone and I, of the period 3 years, almost——

Senator **Clark**. You are speaking of a different negotiation.

Mr. **Leffingwell**. Of a different negotiation, and as I have mentioned, the general character of Mr. Rathbone's negotiation was reported to the Finance Committee of the Senate in—1921 I think is the year.

Mr. **Rathbone**. I might add about that settlement of mine that it was practically concluded and agreed upon between the Chancellor of the Exchequer and myself until the Chancellor of the Exchequer advised me that it had become a Cabinet question, and the Prime Minister was going to write President Wilson on the subject. Of course, the American Treasury could not do anything more than have its representatives come home.

Mr. **Leffingwell**. That was in May 1920.

Mr. **Rathbone**. That was in the latter part of May or the first of June 1920.

The **Chairman**. Gentlemen, unless there is more, the committee is about to recess.

The committee will be in recess until 10 o'clock tomorrow morning, and the witnesses will understand themselves now to be excused.

(Whereupon, at 10:50 p. m., the committee adjourned until 10 a. m., Thursday, Feb. 6, 1936.)

APPENDIX

EXHIBIT NO. 2776

Italian loan outstanding in the United States April 7, 1917

Maturity date	Loan	Amount
October 15, 1917	Italian Government 6% Treasury notes	$25,000,000

EXHIBIT NO. 2777

British loans outstanding in the United States April 7, 1917

Maturity date	Loan	Amount
On demand	Overdraft at J. P. Morgan & Co	$345,000,000.00
June 20, 1917	British banks credit	50,000,000.00
Oct. 2, 1917	DuPont Treasury notes	15,950,000.00
Dec. 15, 1917	do	12,986,600.75
Feb. 1, 1918	U. K. No. III, 1-yr. 5½'s of Feb. 1, 1917	94,887,000.00
Mar. 15, 1918	DuPont Treasury notes	17,829,403.93
July 7, 1918	Canadian Northern notes	5,700,000.00
Sept. 1, 1918	U. K. No. I, 2-yr. 5's of Sept. 1, 1916	194,688,000.00
Sept. 18, 1918	Metropolitan Water Board notes	6,300,000.00
Dec. 1, 1918	English Sewing Cotton Co. Treasury notes	4,900,000.00
Feb. 1, 1919	U. K. No. III, 2-yr. 5½'s of Feb. 1, 1917	143,654,000.00
Feb. 1, 1919	Bethlehem Steel Co., Treasury notes	37,300,000.00
Apr. 2, 1919	Bliss Treasury notes	2,225,000.00
Apr. 30, 1919	Marlin Treasury notes	1,953,561.66
July 14, 1919	Treasury notes	1,100,000.00
Oct. 21, 1919	Remington-Winchester Treasury notes	27,332,000.00
Nov. 1, 1919	U. K. No. II, 3-yr. 5½'s of Nov. 1, 1916	131,117,000.00
Oct. 15, 1920	Anglo-French Loan (British share)	250,000,000.00
Nov. 1, 1921	U. K. No. II, 5-yr. 5½'s of Nov. 1, 1916	131,589,000.00
(?)	American Locomotive Co., Treasury notes	2,000,000.00
(?)	Treasury notes, various contractors	(?)
Total		1,476,511,566.34

EXHIBIT NO. 2778

French loans outstanding in the United States, Apr. 7, 1917

Maturity	Loan	Amount
1. May 1, 1917	Schneider credit, 1st of 2nd series	$5,000,000.00
2. June 1, 1917	Schneider credit, 2nd of 2nd series	5,000,000.00
3. July 1, 1917	Schneider credit, 3rd of 2nd series	5,000,000.00
4. Sept. 10, 1917	Brown Bros. credit	5,000,000.00
5. Sept. 24, 1917	do	5,000,000.00
6. Oct. 2, 1917	do	5,000,000.00
7. Oct. 10, 1917	Schneider credit, 1st of 3rd series	5,000,000.00
8. Oct. 10, 1917	Brown Bros., credit	5,000,000.00
9. Oct. 16, 1917	Seligman loan	10,072,706.22
10. Nov. 2, 1917	Du Pont Treasury note	3,787,008.60
11. Nov. 9, 1917	Schneider credit, 2nd of 3rd series	5,000,000.00
12. Nov. 12, 1917	Brown Bros., credit	5,000,000.00
13. Dec. 12, 1917	Schneider credit, 3rd of 3rd series	5,000,000.00
14. Dec. 15, 1917	Du Pont Treasury note	2,716,769.60
15. Mar. 15, 1918	do	2,739,503.97
16. Apr. 10, 1918	Schneider credit, 1st of 4th series [1]	5,000,000.00
17. May 7, 1918	Schneider credit, 2nd of 4th series [1]	5,000,000.00
18. June 7, 1918	Schneider credit, 3rd of 4th series [1]	5,000,000.00
19. July 18, 1918	French industrial credit	50,000,000.00
20. Apr. 1, 1918	2-year 5½% loan	100,000,000.00
21. Aug. 1, 1919	Amer. For. Sec. Co. loan	100,000,000.00
22. Nov. 1, 1919	Three Cities Loan	36,000,000.00
23. Oct. 15, 1920	Anglo-French loan, French share	250,000,000.00
24. Oct. 15, 1921	City of Paris loan	50,000,000.00
Total		675,315,988.39

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[1] Although the drafts for the 4th Schneider credit were all dated after Apr. 7, 1917, the credit was established on Mar. 12, 1917, and can therefore be regarded as outstanding on Apr. 7.

EXHIBIT No. 2779

Russian loans outstanding in the United States Apr. 7th, 1917

Maturity date	Loan	Amount
May 1, 1917	5% Treasury notes	$11,000,000
June 18, 1919	Three-year 6½%	50,000,000
Dec. 1, 1921	Five-year 5½%	25,000,000
Total		86,000,000

EXHIBIT No. 2780

[PUBLIC, No. 3 (H. R. 2762), 65TH CONGRESS, 1ST SESSION, APRIL 24, 1917]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow from time to time on the credit of the United States for the purposes of this Act, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law not exceeding in the aggregate $5,000,000,000, exclusive of the sums authorized by section four of this Act, and to issue therefor bonds of the United States.

PURCHASE OF OBLIGATIONS OF FOREIGN GOVERNMENTS AT WAR WITH U. S. ENEMIES

SEC. 2. That for the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments, the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to purchase, at par, from such foreign governments then engaged in war with the enemies of the United States, their obligations hereafter issued, bearing the same rate of interest and containing in their essentials the same terms and conditions as those of the United States issued under authority of this Act; to enter into such arrangements as may be necessary or desirable for establishing such credits and for purchasing such obligations of foreign governments and for the subsequent payment thereof before maturity, but such arrangements shall provide that if any of the bonds of the United States issued and used for the purchase of such foreign obligations shall thereafter be converted into other bonds of the United States bearing a higher rate of interest than three and one-half per centum per annum under the provisions of section five of this Act, then and in that event the obligations of such foreign governments held by the United States shall be, by such foreign governments, converted in like manner and extent into obligations bearing the same rate of interest as the bonds of the United States issued under the provisions of section five of this Act. For the purposes of this section there is appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $3,000,000,000, or so much thereof as may be necessary: Provided, That the authority granted by this section to the Secretary of the Treasury to purchase bonds from foreign governments, as aforesaid, shall cease upon the termination of the war between the United States and the Imperial German Government.

SEC. 3. That the Secretary of the Treasury, under such terms and conditions as he may prescribe, is hereby authorized to receive on or before maturity payment for any obligations of such foreign governments purchased on behalf of the United States, and to sell at not less than the purchase price any of such obligations and to apply the proceeds thereof, and any payments made by foreign governments on account of their said obligations to the redemption or purchase at not more than par and accrued interest of any bonds of the United States issued under authority of this Act; and if such bonds are not available for this purpose the Secretary of the Treasury shall redeem or purchase any other outstanding interest-bearing obligations of the United States which may at such time be subject to call or which may be purchased at not more than par and accrued interest.

Exhibit No. 2781

Making War Loans to the Allies

(By Albert Rathbone)

[Reprinted from Foreign Affairs, an American quarterly review, New York, April 1925]

The debts of other governments to the United States have been the subject of much discussion since the end of the World War. The effect which their payment would have upon us and upon the countries indebted to us has been the subject of articles written by economists here and in Europe. Suggestions have been made both at home and abroad that these debts should be cancelled or readjusted. Some progress has been made toward their refunding, that is, the conversion of the promissory notes of the respective foreign governments which we held, which by their terms were payable on demand, into long term obligations with fixed dates of maturity. In some quarters it has been suggested that reparation payments by Germany are in some way inextricably bound up with our loans to foreign governments. In other quarters such a suggestion has been strenuously opposed. The obligations of a government, indebted to two or more other governments, and the rights of the creditor governments as between themselves, both legal and moral, have been the subject of speeches widely circulated in the press. It is not intended in this article to discuss these controversial questions, but to attempt to clarify the issues by making a brief statement of some of the basic facts relating to our Government loans and the principal considerations which governed the United States Treasury in making the loans to the Allied Governments under the authority of the Liberty Loan Acts.

Under the provisions of the Liberty Loan Acts the Secretary of the Treasury was authorized to make loans to the Allied Governments only out of credits established in their favor with the approval of the President before the declaration of peace. From time to time, therefore, when the government concerned had requested the establishment of a credit in its favor, the Secretary of the Treasury would obtain the approval of the President to the establishment of such a credit, and thereupon the Treasury would notify the government concerned that a credit had been established in its favor in a designated amount and that from this credit the Treasury would make loans if, and to the extent which, it should determine and for purposes which it should approve. The establishment of each such credit constituted the President's approval of loans by the Treasury up to the amount of such credit; ordinarily it had no other effect. It did not constitute a liability of the United States nor an engagement on the part of the Treasury to make loans or to pay out dollars. It was subject to withdrawal at pleasure by the Treasury, and in the cases of credits established in favor of Cuba and of Russia the unused portions of such credits were in fact withdrawn after our Treasury had determined that loans to those governments were not required to the full amount of the credits established in their favor. There were other cases too where established credits were in part withdrawn. In a very few special cases what were called effective credits were established in favor of Allied Governments, that is, credits which the governments concerned were assured would be devoted by the Treasury to making loans to them in the future. This was done in cases where dollars were not immediately required and if, in lieu of furnishing the dollars at once, the undertaking of the United States to furnish the dollars at a future time met the need of the Allied Government. Obviously it was to our interest not to furnish dollars more quickly than needed, and to the interest of the borrower not to have interest run from an earlier date than necessary.

When we commenced establishing credits and making loans the foreign governments desired that credits should be established in their favor sufficient in amount to cover all their dollar commitments and all their dollar needs that they could foresee in the near future. On the other hand, our Treasury felt that in view of our own large dollar requirements for war purposes and the limit placed on war expenditure in this country by the country's productive capacity, the total amounts of credits established in favor of Allied Governments should not average more than about $500,000,000 each month. The dollar needs of the Allied Governments as so estimated by them considerably exceeded $500,000,000 a month, so that there naturally ensued a competition between the Allied Governments regarding the extent to which each should participate in the credits we were prepared to establish. Each Allied Government was reluctant to reduce its estimate of its need for dollar credits so as to bring the aggregate of all such requests within the limit of $500,000,000 monthly, fixed by our Treasury. The Treasury was not equipped to determine with certainty whether the effective prosecution of the war required the establishment of a credit in favor of Great Britain for one purpose rather than a credit in favor of France for another or in favor of Italy for a third. In relief of these perplexities, it soon became apparent that the estimated dollar requirements of the Allied Governments were one thing, and the supply of commodities obtainable upon our markets in a given time was quite another, and that in consequence, while our Treasury might have been staggered to supply dollars quickly to the aggregated amount indicated by the Allied Governments, it would be able to supply all the dollars required by the Allied Governments as fast as the commodities they purchased could be delivered to them by our producers. In view of these considerations, the Treasury adopted towards Great Britain, France, and Italy, the general policy of establishing credits the amounts of which bore no definite relation to the amount of their commitments nor to the amount of their requirements here, but which aggregated approximately the estimated amount of dollars which they would require for disbursement during a period of thirty or forty days. As a consequence of this method of procedure, competition between the Allied Governments for our credits ceased and we were able in due course to establish for all of them the credits which were needed, in addition to their own available dollar resources, to meet their dollar requirements for war purposes. In the case of certain of the smaller countries it was found necessary to continue to establish credits up to the amount of their commitments in the United States, as without such credits in their favor they found it difficult to place to advantage orders upon our markets.

After putting into effect the practice of establishing credits to cover estimated cash disbursements for a period of thirty or forty days, the Treasury fixed Tuesdays and Thursdays of each week as the days when it would ordinarily make loans from these established credits. In a case of urgent necessity the Treasury would make loans on other days, but it was found to be less disturbing to our banking institutions if the bulk of our loans were made on days fixed in advance. In general the dollars we loaned were made available by the Treasury instructing the New York Federal Reserve Bank (in accordance with the previously received request of the borrowing government) to hold subject to the order of that government a stated amount in dollars, and so notifying the borrowing government. Ordinarily on the same day the borrowing government withdrew from the Federal Reserve bank the funds placed to its credit and deposited the same with its own depositary in the United States. Loans were not made on every Tuesday and on every Thursday to every Allied Government availing of our loans, but while the war was going on and for some time thereafter, while deliveries were constantly being made to the Allied Governments under existing incompleted contracts requiring the payment ot our producers of a large amount of dollars, there were not many Tuesdays or Thursdays on which some loans were not made by our Treasury. The general purposes for which loans would be made to the Allied Governments having been approved, the amount of loans to be made by our Treasury on any given day was determined by a consideration of the amount of the bank balances of the Allied Governments and the estimated dollar demands upon them for the next few days. In connection with the sale of Liberty bonds, the Treasury had carefully built up a system under which its balances were *pro rated* among various banking institutions throughout the land in proportion to their subscriptions to Liberty bonds and Treasury certificates. As the money which the Allied Governments borrowed belonged to them, and in consequence they could deposit it where they pleased, care had to be taken that the equilibrium established by this system should not be disrupted by unnecessarily large cash balances being built up by the Allied Governments with their own depositaries. The governments borrowing on Tuesdays would advise the Treasury regarding their approximate cash balances at the close of business on the preceding Monday, any other dollar resources expected to become immediately available to them, and their estimated dollar disbursements on that day and the next; in the light of that information the Treasury determined the amount of dollars it would loan that Tuesday. Similarly the Treasury on Thursdays would be advised of the approximate amount of bank balances at the close of business the preceding day and of the estimated dollar receipts and payments that day and on the succeeding Friday, Saturday, and Monday.

At the same time that we made them our loans, the borrowing governments, through their representatives duly authorized for the purpose, executed promissory notes for the dollars borrowed, payable upon demand, except in the case of a few of the earlier notes which were expressed to be payable on a specified early date and which after their maturity were carried as past due or demand obligations. By their terms, these notes, or certificates of indebtedness as they were often called, bore interest at a specified rate, were payable in gold coin of the United States, and contained an agreement on the part of the borrowing government to convert the notes upon the request of the Secretary of the Treasury of the United States into an equal par amount of convertible gold bonds of the borrowing government, conforming to the provisions of the acts of Congress specified in each note under the authority of which the loan was made. These notes were in all respects as valid and binding as would have been long-term obligations payable on fixed dates.

Under the terms of the acts of Congress our loans could be made to the Allied Governments only for the purpose of more effectually providing for the national security and defense and prosecuting the war. But to prosecute the war against Germany effectively the Allied Governments were obliged to purchase on our markets not only munitions and supplies for their armies but also foodstuffs and commodities required for the sustenance of their civilian populations. In consequence, their war purchases in the United States for which we made our loans consisted of supplies required both by the military forces and the civilian populations of the allied countries.

The financial requirements of each of the Allied and Associated Governments fell into three classes—according as they arose at home, in allied or associated countries, or in neutral countries. In general, the view of the United States Treasury was that the first class could and should be met by the government concerned through taxation or domestic loans; that as regards the second class, each country (if necessary) should stand ready to provide or arrange finance for the requirements of its allies for expenditures within its borders; and that expenditures in neutral countries should, for reasons of finance, be reduced to a minimum and should be met under some equitable arrangement by those countries able to provide the necessary finance in the required currency.

From the time it received the necessary authority from Congress, the United States Treasury was prepared to make to the Allied Governments whatever loans were required to enable them to make in the United States their necessary war purchases n so far as an Allied Government was unable itself to effect such purchases from other dollar resources at its disposal here. If the Allies were successfully to carry on the war, it was absolutely essential that they should make heavy purchases of our commodities. In view of our own stupendous financial program it would have been unwise to permit new issues of bonds of foreign governments to compete in our market with our own Liberty Bonds; and in any event no considerable amount could have been raised by the Allied Governments in that manner. It was clear that through taxation and loans we could gather in dollars, and that the dollars we loaned to the Allies and which were expended by them here remained subject to our taxes or available for the purchase of our Liberty Bonds. These same considerations, however, were applicable to the requirements of all the Allied Governments so far as they could be supplied in any allied country. Thus there was linked with the proposition that we would find and loan to the Allies the dollars they required for war expenditures in our country, the corollary that each allied country could and should, to the extent necessary, find and loan its currency to other Allied Governments for their war purchases within its territory. That is, for war purchases within the British Empire, Great Britain should supply and loan the necessary pounds to France, Italy, and Belgium, and France should similarly supply and loan the francs needed for war expenditures of the Allied Governments in France.

For its own war purposes in Great Britain, France, and Italy, the United States did not borrow pounds or francs or lire. Our Treasury was obliged to procure these currencies for the use of our army abroad. We bought pounds, francs and lire from the governments of Great Britain, France, and Italy and made payments therefor in dollars here. The dollars thus obtained by Great Britain, France, and Italy were applied by them towards the cost of their war purchases here, and thus the amount of the dollar loans required by these countries from our Treasury was diminished in a corresponding sum. Similarly Great Britain, loaning to France and Italy much larger values than the British requirements for francs and lire, paid for the francs and lire required for British use by crediting to France and Italy the sterling equivalent of the francs and lire turned over to her. By this means, or by some similar transaction, Great Britain met her needs for those currencies. Some other of the Allied Governments, however, required francs which were loaned them by France and substantially all of the Allied Governments actively engaged in the war in Europe required sterling and obtained advances thereof from Great Britain.

The United States financed its own requirements in neutral countries. To some extent our loans to support sterling exchange (which are referred to hereafter) provided the means necessary to pay for British purchases in neutral countries, and, to the extent they did not suffice, Great Britain obtained for herself the neutral currencies she required. Direct aid was required, however, chiefly by France and Italy, to finance much of their necessary war purchases in neutral countries. It was evident that the United States or Great Britain or both would have to find much of the finance required by France and Italy in neutral countries. There was no particular principle under which all such finance should be furnished by one of those countries and none by the other; both the United States and Great Britain were financially able to assume and to carry the burden. Great Britain before we entered the war had supplied such neutral finance as France and Italy required and had not been able themselves to supply. Until we declared war on Germany the war had been the Allies' war, not ours, and our Treasury therefore could not accept the theory that, because before we entered the war Great Britain alone had furnished the assistance required by France and Italy for finance in neutral countries, it was our duty alone to furnish such assistance after we entered the war.

Various considerations had to be taken into account in determining how and to what extent the United States should aid in financing, in neutral countries, necessary requirements of France and Italy, arising from the time we entered the war. Great Britain as the great creditor nation had available facilities for obtaining neutral finance which we, at that time a debtor nation, did not have. The apparent large balance of trade in favor of the United States, after there had been eliminated therefrom the United States exports paid for by the dollars which we had loaned the Allied Governments, became a heavy adverse balance against the United States, and this seriously handicapped the ability of the United States to furnish financial aid to Allied Governments in neutral countries. Through its pre-war commercial interests and its well-established war organizations, Great Britain was actually in a better position than we were in, or could put ourselves in, to handle the obtaining and utilizing of such neutral finance. Great Britain had capital interests in many neutral countries and for years the ocean transportation of exports and imports of neutral countries had been largely carried on by British ships. Between April 1917 and November 1918, as compared with the currencies of Sweden, Norway, Denmark, Holland, Switzerland, Spain, India, Japan, the Argentine, Chile, Peru, and Bolivia, the dollar was at a discount, and generally at a very heavy discount, and the pound was at an even heavier discount than the dollar. Consequently, purchases in these countries, if paid for in dollars or in pounds at their current exchange value, meant costs largely in excess of the high war prices as measured in terms of the currencies of these countries. If we alone were to finance these neutral requirements, it was as a practical matter impossible for us to delegate to Great Britain the control of the expenditure of our dollar loans for the neutral requirements of France and Italy for which they were unable themselves to provide. For the reasons elsewhere referred to, from the financial standpoint it was to our interest, and to the interest of Great Britain as well, that purchases which France and Italy could make in the United States or in Great Britain should be made there rather than in neutral countries. After we entered the war, in view of the considerations mentioned, Great Britain continued to furnish in the first instance most of the neutral finance required by France and Italy, but the United States Treasury, being prepared to bear its fair portion of the burden of securing finance for France and Italy in neutral countries effected arrangements by which, after we entered the war, such purchases were ultimately in part financed by our dollar loans to France and Italy. The cost of the neutral finance so found after we entered the war was ultimately furnished, in the case of Italy, approximately one-half by the United States and one-half by Great Britain, and—in the case of France—something over one-half by the United States and the balance by Great Britain.

Having thus fixed its general policy as to which countries should be the lenders, the United States Treasury formulated its general policy as to the Allied Governments which should be the borrowers. This was, that our loans should be made to each Allied Government to meet the cost of commodities purchased here for its own use; that we would not loan to one government the dollars needed for purchases to be made by or on behalf of another government, and that neither the financial condition of the borrower nor questions of political expediency in our own country should be factors in determining the government to which our dollars should be loaned and whose obligation we would consequently take. In view of the discussions since the war regarding our loans, it is interesting to recall that sympathy here at the time we were making our loans was strongly with France and that it was believed that loans to France would be more popular in our country politically than loans to Great Britain. However, as stated, no such consideration was permitted to influence our Treasury in the making of its loans.

A difficulty arose in applying the principle that we should loan to each Allied Government the dollars required for war purchases here for its own use. Before we entered the war various purchasing organizations had been built up and were functioning. It was deemed unwise to disturb or disrupt them. Many purchases were effected by a single organization set up by one of the Allied Governments which pooled the necessary purchases for the use of the three principal Allied Governments. To have insisted that each government make its own purchases separately would have caused them to compete with each other and would have further raised prices in the United States, with the resultant increase in the amount of our loans. To meet this situation, what was known as the dollar reimbursement plan was devised. Under this plan, if one Allied Government borrowed dollars to pay for purchases made by it in whole or in part for the use of another Allied Government, we loaned the government for whose benefit the purchases were made a sufficient amount of dollars to permit it to reimburse the government originally making the purchases. This was done on a settlement of the account, and sometimes indeed before its final settlement, and the government to which reimbursement was made either applied the dollars thus received toward the repayment of our loans to it or else held them to meet its dollar expenditures for purposes for which dollars would otherwise have been loaned to it by the United States. For example, if a British agency purchased in the United States a commodity, say copper, part of which was to be used by Great Britain, part by France and part by Italy, the British Government in the first instance borrowed of our Treasury sufficient dollars to make payment for all the copper so purchased. Later, when a specified amount of the copper so purchased was turned over to France and a specified amount to Italy, the British Government made claims against the French and Italian Treasuries for reimbursement in dollars for the cost to the British agency of the copper turned over to those countries, the price charged them being determined by the price of all copper so purchased, including expenses incident to the purchases, cost of transportation to seaboard, interest, etc. When these accounts of copper purchases were settled between these three governments, and sometimes pending final settlement, the French and Italian Governments would ask loans of the United States Treasury for the purpose of repaying in dollars to the British Government the amount of dollars which the British Government had thus expended for them in buying the copper turned over to France and to Italy, and dollar loans in the required amount having been made to France and to Italy, they would then pay the dollars to Great Britain in settlement of the cost of copper delivered to them by the British agency. The next step would probably have been to require the British Government to repay the dollars thus received to the United States Treasury on account of our loans to Great Britain and to have cancelled a corresponding amount of British obligations, had it not been that the cost of the copper bought for France and Italy then would have figured twice in calculating the aggregate amount of our loans to the Allied Governments; once when purchased from the American producer by the British agency for France and Italy, and once when purchased at cost by France and Italy from the British agency. Ordinarily, therefore, instead of requiring the dollars so received by Great Britain from France and Italy in reimbursement of the cost of its copper purchases for those countries to be applied on the British obligations which we held, our Treasury would require Great Britain to expend the dollars so received by it from France and Italy for other of its dollar purchases, in all respects as if the dollars so received had been loaned by the United States to the British Government. In its essence the dollar reimbursement plan was merely bookkeeping which, when applied, resulted in our loans being made to the appropriate country for whose use they were expended in accordance with the policy of the Treasury as stated. Its practical effect was to substitute for British obligations in our portfolio the obligations of other Allied Governments to the extent that purchases were made from our dollar loans to Great Britain for the use of other Allied Governments.

The difficulties which naturally occurred in giving effect to the principles which our Treasury adopted and the modifications which became necessary in the methods which we used in making our loans inevitably caused some extension of these principles. As already stated, we were prepared to loan the dollars needed to buy available commodities produced here so far as required by the Allied Governments for war purposes. It had, however, been the business custom for years, and such custom could not be changed in a day, to pay for various of such commodities, notably cotton, by means of the foreign exchanges.

For example, British manufacturers had for years been large buyers of raw cotton in the United States. The British manufacturer in payment for the cotton he purchased would authorize the American seller to draw on him for pounds sterling in a specified amount. The American seller would accordingly make his draft payable in sterling, and as he did not want pounds sterling in England but dollars in the United States, he would sell such draft on the New York exchange market for dollars. In ordinary peace times there was a commercial demand in New York for pounds, and these sterling drafts could readily be sold at or about the par of exchange, *i. e.*, for an amount of dollars the gold content of which would equal the gold content of pounds to the amount specified in such draft. In peace times, fluctuations in exchange where the supply of pounds offered on the New York exchange market exceeded the demand, and *vice versa*, were checked by England exporting gold to us, or if the demand for pounds exceeded the supply of sterling drafts offered, by our exporting gold to England. War-time conditions fundamentally changed this situation. Great Britain in effect prohibited the export of gold and we permitted gold to be exported only under special licenses which were issued only in exceptional cases. Great Britain's exports were curtailed and her commercial carrying trade was disrupted. As we bought much less of British commodities and services during the war than in peace times, we required much less sterling than in peace times to pay for such British commodities and services as we bought during the war. On the other hand, the British need of dollars had largely increased over her peace-time requirements. Necessarily the effect of these conditions was to increase the British demand for dollars and to lessen the demand for pounds on our exchange market. Therefore, if cotton and other commodities purchased of us, which in peace times were ordinarily paid by sterling drafts, were still to be paid in that manner, it would not be possible to sell these sterling drafts for dollars at or near the par of exchange; and instead of drafts payable in pounds sterling commanding in our market something near the par of exchange in dollars ($4.86+) they could be sold only at a great sacrifice, how great it was impossible to foresee. Certainly on our exchange market the value of the pound as compared with the dollar would have tremendously declined and the credit of Great Britain would have been seriously affected at a time when it was of the utmost concern to all the governments at war with Germany that the financial credit of the Allied Governments should be maintained. It was recognized that the sterling drafts offered for sale on the New York exchange market were not only drafts issued in payment of purchases in the United States, but also drafts used in payment of purchases in other parts of the world, both within and without the British Empire; and that such purchases were not only governmental purchases but also private purchases, not only purchases by residents of Great Britain but also by residents of other countries. Hence our making loans for the purpose of supporting British exchange necessarily would involve an extension of the principles formulated by our Treasury to govern it in making our loans. However, it was believed that, because of the control exercised by the Allied Governments over exports and imports and over shipping, the great bulk of the purchases for which payments would be made over our exchange market would be for war materials and other commodities necessary for maintaining the civilian populations of the allied countries, and that through such control and cooperation between the governments the amount of drafts coming on the exchange market, representing purchases in neutral countries, could be kept within reasonable limits.

It was decided, therefore, that British exchange should be pegged and that the Treasury would make the necessary dollar loans for the purpose. British exchange was pegged by supplying sufficient dollars through our loans to Great Britain to enable its representatives to purchase on the New York market, at a price agreed upon in advance, all sterling drafts offered for sale which were not purchased at or above that price. Thus there was created an unlimited demand for such drafts at a fixed price. The total amount expended by Great Britain in support of exchange and for cotton purchases was approximately $1,682,000,000 of which about $1,275,000,000 was during the period from April 6 to December 31, 1917, when our Governmental agencies for the control of purchases were being established. It is impossible to analyze this large amount of expenditures but a study of our trade returns for 1917 suggests that, during that year, the amount of our advances to the Allies not represented by purchases and other expenditures in the United States was only a very small proportion of the total. By the first of January, 1918, most of the important purchases, other than cotton, had been taken off the exchange market and were being paid for direct in dollars and the advances to Great Britain for the purchase of exchange and for cotton for the period from January 1 to November 30, 1918, fell to about $296,000,000. During the same period our exports of cotton to Great Britain, as shown by the trade returns, amounted to about $290,000,000. The United States also made loans to support French exchange, though the method employed was somewhat different and the amount involved much less than in the support of sterling exchange. British exchange was pegged at a fixed point ($4.76 7/16 per pound for cable transfers) for the entire period. French exchange was pegged at a point, generally in the neighborhood of 5.70 francs to the dollar, agreed upon practically each month. Italian exchange lacking our support had depreciated to about 9.15 lire to the dollar, but after support was arranged through our standing ready to make loans to purchase drafts payable in lire, Italian exchange was brought to about 6.35 lire to the dollar.

As many French purchases were paid for by sterling drafts which were offered for sale in our markets, the dollar reimbursement plan was utilized to reimburse Great Britain for her borrowings of dollars to support sterling exchange to the estimated extent that French purchases were paid for in such sterling drafts. The cost of sterling drafts representing French purchases, paid for from our loans to Great Britain to support sterling exchange, was approximately $50,700,000, and accordingly we ultimately were given French obligations in lieu of British obligations to that amount.

The Treasury as rapidly as practicable arranged that payment for American commodities purchased by the Allies should be made direct in dollars, and eventually by far the greater part of the commodities (including cotton) which at the time we entered the war were being paid for by drafts payable in foreign currencies, were paid for direct in dollars by the Allied Governments out of our loans to them.

Next the shipping situation presented difficulties in the way of carrying out the Treasury's theory as to the particular government to which a loan should be made. These difficulties were most acute in connection with the supply of cereals. Apart from the United States, the principal sources for the supply of cereals were within the British Empire (Canada, Australia, India, etc.) or in neutral countries, especially the Argentine, in which Great Britain was in a position to secure finance. Considerations, both of time and of risk in shipping, made it expedient that Italy and France should be supplied largely from British Empire sources and that Great Britain should be supplied from America, rather than that all British Empire supplies should move to Great Britain and a corresponding amount of American supplies should move to France and Italy. It was recognized, however, that such an arrangement made for the common good should not have the effect of increasing Great Britain's borrowings in America on the one hand, and its loans to France and Italy on the other. The difficulty was worked out by means of a theoretical cereal allocation. That theory assumed that each country would receive, and so far as necessary apply to its own needs, the cereals available within its own territorial boundaries, and that it would purchase cereals here and borrow dollars for the payment thereof only to the extent that each country required for its consumption cereals in addition to the supply available within its own territories. Actually, in order to economize in the use of ships, the cereals were taken from the sources most available in view of the shipping situation and the German submarine menace.

Under the cereal allocation theory, the British Empire's supply of cereals was to be allocated in the first instance solely to Great Britain, and the cereal supply purchased in neutral countries was to be allocated to the country finding the finance, which was to be procured in such manner that sterling and franc drafts issued in payment therefor would not come upon the New York market as exchange and would not therefore be purchased with dollars from our loans to support exchange. The exportable supply of the United States was to be allocated in proportion to the requirements of the various allied countries in excess of those covered in the manner previously indicated; and our Treasury was prepared to make advances to the Allied Governments, in accordance with such allocation, up to the f. o. b. cost of the United States supply purchased and allocated to them.

The cereal allocation theory dealt with further allocations of minor importance and also with the allocation of any excess of the British supply over British requirements. In point of fact, however, the British supply fell somewhat short of British requirements, and consequently a small part of the American supply was allocated to Great Britain. The practical effect, therefore, of the cereal allocation theory was that we received British obligations for the cost of cereals to the extent only that the British supply (obtained from the British Empire and neutral sources) was inadequate to meet the needs of Great Britain, although something over one-half of the cereal import requirements of the United Kingdom were actually met from the United States supply; and that we took the obligations of other Allied Governments for the cereals furnished them, although their requirements were actually met, at least to a considerable extent, by shipment from the

British Empire source of supply. Before the cereal allocation theory was entirely worked out and accepted by the American and British Treasuries, and to meet a pressing emergency, at the urgent request of Great Britain we loaned her in the neighborhood of $200,000,000 to purchase wheat in Canada. The inability of Canada to finance its export of cereals was due largely if not entirely to purchases being made by Canada in the United States of the same character as those for which our Treasury was prepared to make loans to the Allied Governments, so that in making this Canadian cereal loan to Great Britain the departure from our principle of not ordinarily making loans to an Allied Government to finance purchases within its own territory was more apparent than real.

Much discussion took place regarding the extension of the principles of the cereal theoretical allocation to other supplies. In general, our Treasury expressed willingness to apply the principle to all cases where Great Britain was buying in the United States and furnishing to other Allied Governments similar supplies in substantially the same condition or stage of manufacture, whether Great Britain had obtained such supplies from the United States or from other sources, and on this basis British claims for reimbursement by France for pig iron and steel billets were accepted by the United States. Our Treasury, however, refused generally to extend the principle to raw materials of American origin used in producing manufactured articles for the Allies in Great Britain. Obviously many new considerations would have arisen in connection with any such extension, one of the most important being the difficulty of applying it with any degree of accuracy or completeness, particularly as such application to be logical would have to be bilateral, so that against any adjustment for, say, American pig iron entering into shells supplied by Great Britain from its loans to other Allied Governments there would have had to be an adjustment for, say, Indian jute contained in American sacks purchased with the dollars we loaned to the Allies. It is probable that on balance the amount involved in any such extension of the principle would have been relatively unimportant. Nevertheless, in certain specific cases where, to meet a military emergency, the Interallied Munitions Council required deliveries from one army to another of manufactured munitions containing American raw materials, the Treasury did consent that dollar reimbursement might be made for the cost of the American raw materials entering into the munitions so delivered.

The question of what items of British expenditures were made for account of other Allied Governments, and hence entitled to full reimbursement in dollars if made in the United States and part reimbursement if made in neutral countries, was a frequent subject of conference between the treasuries of the countries concerned. It was not easy of solution. Great Britain made purchases for France for which dollar reimbursement was claimed from France to an aggregate amount in excess of $1,000,000,000. For a considerable period France paid Great Britain on account of such purchases the sum of $10,000,000 a week, derived from loans to France by the United States Treasury. It was easy to determine that certain of the advances made to Great Britain were for the use of Great Britain and of no other country. Munitions, cotton, foodstuffs, tobacco, and other commodities purchased by Great Britain out of our loans were transported to England and there consumed because Great Britain had not a sufficiency of these commodities and required them for consumption if the war was to continue. So, too, interest on the advances we had made to Great Britain and the amounts required to meet the principal and interest of dollar obligations of the British Government to private holders as they matured during the war period were loans for the benefit and use of the British alone. In other cases it was just as easy to determine that certain purchases were effected out of our advances to Great Britain for the benefit not of Great Britain but of other Allied Governments. Such advances were repaid in dollars to Great Britain by the respective Allied Governments out of our loans made to them for that purpose. It was not so easy to determine other questions—for example, the division between the United States and Great Britain of purchases made in neutral countries for the use of other Allied countries, the proper settlement of the complicated figures dealing with the cereal allocation theory and the transportation of cereals, or the extent to which French purchases were paid for out of our loans to Great Britain to support sterling exchange. These and other debatable questions were argued *pro* and *con* and eventually an agreement was reached by the American and British Treasuries as a result of which dollar loans were made by the United States to the countries concerned and by them paid to Great Britain in full and final settlement, certainly as far as the United States Treasury was concerned, of the claim of Great Britain that it had used part of its dollar advances from the United States to effect purchases for the benefit of other Allied Governments.

The dollars so received by Great Britain were either paid to the United States Treasury on account of British obligations which we held, or, as previously stated, used for dollar requirements of Great Britain in lieu of further loans to Great Britain from the United States. In either case the effect was to decrease the aggregate amount of British obligations which otherwise would have been held by us and correspondingly to increase the aggregate amount of the obligations of the other Allied Governments to us.

It will be observed from the table hereinafter set forth that the total amount of dollars paid in reimbursement to Great Britain by the other Allied Governments from our loans to them aggregated about $1,850,000,000. Without making a detailed analysis of this figure it may be broadly stated that of this sum roughly $1,100,000,000 represented reimbursement on account of cereals, $500,000,000 reimbursement for other replacements of a similar character such as iron, steel, meat, etc., and $250,000,000 neutral purchases and other special items.

These were the general theories on which the bulk of our war loans were made; there were special cases which had to be specially treated, such as the loan of our melted silver dollars to Great Britain under the Pitman Act, for use in India, which loan has now been repaid in full; loans to France in lieu of compliance with a request for one billion gold francs which M. Clemenceau made of President Wilson at a time when the Germans were advancing towards Paris and when our franc requirements for the purposes of our Army in France were large; and loans for Austrian relief to prevent the spread of anarchy and the continuation of war. Attention should be called, however, to one notable departure from the principles adopted by our Treasury in making loans for expenditure in the United States, namely, the loans we made to Great Britain to enable that Government to make payment here in dollars of obligations which, before we entered the war, it had assumed in connection with American contracts entered into by the Russian Government. Before we entered the war our manufacturers had quite generally refused to enter into contracts to supply commodities to Russia unless they received some assurance that Russia would make the payments she obligated herself to make under the terms of the proposed contracts. Great Britain supplied the credit required by our manufacturers on Russian orders and in effect guaranteed the payments which Russia obligated herself to make under such contracts. After we entered the war, we from time to time loaned, to Great Britain and not to Russia, the dollars required to make the payments under these contracts as they became due, because the obligation was incurred by Great Britain before we entered the war. Thus Great Britain was called upon to pay and did pay our dollars we loaned to her (not to a very significant amount in comparison with the aggregate of our loans to Great Britain) in discharge of her old obligation of guaranty under these Russian contracts. To some extent Great Britain recouped these expenditures through the utilization or disposition of material delivered under such contracts, but on balance some small part of our dollar loans to Great Britain was for the purpose of meeting obligations in the United States entered into by Great Britain before we entered the war, but which were settled after we entered the war, and not for the direct benefit or use of Great Britain but for the use and benefit of Russia.

Some of our dollar loans had resultant effects which were of importance. Lending the dollars needed to support sterling exchange resulted in the purchase by the British Government, from our loans, of drafts payable in sterling, and to the extent that such drafts were drawn in payment of purchases not made by the British Government itself, that Government collected the sterling called for by the drafts purchased. The sterling thus obtained was available for the governmental purposes of Great Britain and to a corresponding extent diminished the sums the British Government was obliged to raise through loans or by taxation. When we loaned dollars with which the British Government purchased commodities, notably foodstuffs, for the use of the civilian population, the pounds paid therefor to the British Government on the sale of these commodities in Great Britain to the inhabitants of that country became available to the British Government. The French Government obtained a supply of francs through our support of French exchange, and France, Italy and, to a lesser extent, other countries obtained supplies of their currencies through the sale to their civilian populations of commodities purchased through our dollar loans. Our support of British and French exchange necessarily had the effect of maintaining the purchasing power of the pound and the franc, with consequent savings to the Governments of Great Britain and France. The purchasing power of the lira was increased when the arrangements we made effected its rise on our exchange market.

In the latter part of March 1918 the Chancellor of the Exchequer for the British Treasury proposed a modification of the methods theretofore in use by the United States Treasury in making its loans to the Allied Governments. It was proposed that our Treasury should take over all the future obligations given to Great Britain by France and Italy, except obligations which they should enter into for the payment of interest on advances previously made to them by Great Britain, and that Great Britain should remain primarily responsible for arranging the finance of supplies to France and Italy outside of North America. For the supplies thus purchased for France and Italy it was proposed that France and Italy should make payment to Great Britain in dollars received by France and Italy from our loans, instead of making payment therefor to the British Treasury by their treasury bills, and that the dollars so received by Great Britain were to be used to meet in part the approved purchases of Great Britain in the United States. The British Treasury estimated at that time its monthly loans to France at about $75,000,000 and to Italy at about $43,000,000, exclusive of loans for interest due Great Britain upon her previous advances, and that the result of adopting the proposal would be that the United States would loan to France and Italy about $118,000,000 per month more than we were then loaning those countries, and to Great Britain monthly about $118,000,000 less than we had been loaning her. This proposal was not accepted.

An excellent editorial entitled "The Balfour Note Once More", appearing in the British financial journal, *The Economist*, of March 10, 1923, states that the United States refused to accept this proposal largely on the ground that if it did so it would have no control over the expenditure of the money spent by agencies of the British Government for France and Italy. It is true that this consideration was one reason for declining the proposal. It was, as a practical matter, impossible for the United States to loan dollars to France and Italy for purposes and in amounts which were to be determined, not by our Treasury, but by agreement between Great Britain on the one hand, and France and Italy on the other hand. It was, however, a part of the proposal that Great Britain should remain responsible for financing in the first instance the supplies to France and Italy outside of North America, and indeed it would have been most unwise to scrap the efficient purchasing organization built up during the war by Great Britain. But while this consideration was important, the real reason for the rejection of the proposal was that it was in conflict with what our Treasury strongly believed should be the fundamental principle in making Government loans, namely, that each government should find the finance required within its own territory by itself or by an allied government to the extent that such allied government was unable itself to provide the same. The reasons for the formulation of this principle have already been discussed. It was the least burensome manner of finding the necessary war finance and our Treasury felt that any radical departure from that principle could not be logically defended and was fraught with financial and political danger. Through the cereal allocation theory and its extension to other commodities already referred to, the United States relieved Great Britain from the necessity of making loans to other Allied Governments for their purchases from her of commodities of substantially the same character and in the same state of manufacture as Great Britain was buying concurrently in the United States. But the fact that the Allied Governments required and were purchasing coal and woolen goods from Great Britain seemed no reason for our accepting French or Italian obligations, whether given before or after we entered the war, in payment for British purchases here of raw cotton or copper for its own use.

The fundamental cause of Great Britain borrowing from us while loaning to the Allies was that there were commodities here which Great Britain required for her own use and was obliged to pay for in dollars which she borrowed of us, and there were commodities within the British Empire required by the Allies which had to be furnished them and for which they could not pay except from loans. The same condition existed, though to a smaller extent, in the case of France, which, while borrowing both of the United States and of Great Britain, nevertheless made loans to Belgium, to Italy, to Russia and to others of the Allies.

The position of the British Government as both a borrower and lender unfortunately has led to some misapprehension regarding our own loans. In some quarters there has apparently existed the erroneous impression that while we made loans to other Allied Governments we did so only on British security, or the equally mistaken view that the dollars Great Britain borrowed of us enabled her to make loans to other Allied Governments.

The London *Economist* has done yeomen's service in removing these misunderstandings. Thus in its editorial already mentioned it is said:

"In the circumstances described we sympathise with the complaint of the American Ambassador against the sentence in the Balfour Note in which it says, 'Under the arrangment then arrived at the United States then insisted, in substance, if not in form, that, though our Allies were to spend the money, it was only on our security that they were prepared to lend it.' This sentence certainly suggests that the American Government refused to accept the credit of our European Allies, and that in some way we were made to underwrite the loans they made from America for all purposes—an implication which is entirely incorrect. We regret, therefore, that Lord Balfour should have said on Thursday that 'I am unable myself to find in those words anything which is either misleading or obscure.' "

Again in an editorial entitled "Inter-allied Debt", appearing in *The Economist* of January 10, 1925, it is stated:

"Again, the fact that we are paying the United States is not in itself an argument for bringing pressure upon France, for it is not in any sense true, as is commonly supposed, that we borrowed from the United States merely to relend to France and Italy. Our loans from America are quite independent of our loans to our European Allies. America lent to Italy, to France, and to Great Britain moneys required to enable them to make necessary purchases from the United States, and far the larger part of what we bought in America consisted of wheat, meat, metals, explosives, oil fuel, and other essentials, either of our national existence or of our war effort. But France had to borrow not only in America; the fact that the greater part of her pigiron production was in German hands and that her mines were destroyed, meant that she had to buy iron and steel and coal in Great Britain, as well as woollen cloth, chemicals, and a great variety of manufactured products for which we advanced her sterling credits. It is an accident that the amount of these advances to France and Italy for purchases in Great Britain amounted during the latter part of the war to about the same amount as we had to borrow for British needs in the United States. But we cannot argue that if we had not been compelled to lend to our European Allies we need not have borrowed from America; the reason we had to borrow from the American Government was that—large though our internal loans might be—we had no means of securing credit in dollars. It is true we might have raised further sums by continuing to sell conscripted American securities, but it was already becoming difficult to make further sales, and this method of raising money would have been increasingly costly. On the other hand, the United States Government, as soon as it came into the war, was determined to control the purchases of ourselves and our Allies. For all parties concerned, therefore, it was the cheapest and most convenient plan for us to borrow from the United States Government. It is quite certain that even if France had not had to make any further purchases in Great Britain in 1917 and 1918, we should still have been under the necessity of borrowing in dollars in the United States in order to feed Great Britain and to provide the material which America alone could supply."

It would appear, however, that during the latter part of the war Great Britain's loans to France and Italy were considerably less than her borrowings from us. Official British statistics show Great Britain's loans (probably including interest on loans made before March 31, 1917) from March 31, 1917, to March 31, 1919, to France at about £243,200,000 and to Italy at about £255,500,000 (an aggregate of something under £499,000,000), and Great Britain's loan from the United States Government outstanding March 31, 1919, at over £840,800,000.

That our loans to the Allied Governments attained the magnitude they did is due to the fact that we were not able to put an army at the battle front immediately upon our entering the war. When we first entered the war the Allied Governments were able to purchase large quantities of supplies here requiring large expenditures of dollars and huge loans to them. As our army took the field it began to absorb an increasingly large share of our products and thus the amount of our commodities available for purchase by the Allied Governments correspondingly decreased. So, too, when we first entered the war our governmental requirements for sterling, francs, and lire were almost negligible, but as our military strength on the fighting line increased, our requirements for foreign moneys became correspondingly greater and the increasing amounts of dollars which we paid for such currencies furnished dollar resources to Great Britain, France, and Italy which were utilized by those countries instead of borrowing from us equivalent amounts.

Our Treasury quite naturally felt that its duty did not cease with the actual making of our loans to the Allied Governments. It was of the utmost concern to the United States just how the dollars we loaned were expended, yet having purchased obligations of the Allied Governments the dollars we paid for such obligations were theirs, not ours. It would have been undignified for them as sovereign states to have permitted even a friendly power to exercise control over their dollar balances. Had the Treasury insisted on controlling the expenditures of the dollars loaned, it could not have escaped responsibility for the use of the borrowed dollars. The Treasury was not equipped to act as a purchasing agency. The acquisition of commodities was imperative, time was most important, and reasonable certainty of prompt deliveries far outweighed ordinary price considerations. Our Treasury concluded that the control of the dollars loaned must be given exclusively to the borrowers; it was so given, and the purposes of the Treasury were served and the interests of the United States protected by other measures taken by our Treasury to which reference will now be made.

In making their written requests for dollar loans the Allied Governments were required to specify generally the uses which they proposed to make of the dollars asked for, and the written replies of the Secretary of the Treasury granting applications for loans likewise specified the general purposes for which the dollars loaned were to be expended. Thus the borrowing governments became obligated in respect of their use of the dollars we loaned them.

The Allied Governments, in compliance with the request of the Treasury and to enable the Treasury to consider further applications for loans in the light of full information as to the use made of dollars previously loaned, reported to the Treasury, in detail and on forms prepared by the Treasury, the use made of the dollars previously loaned them.

Under arrangements entered into in September 1917, purchases were made by the appropriate agencies of the various foreign governments under the general supervision of a Purchasing Commission established by agreement between the Secretary of the Treasury and the respective foreign governments for the purpose of coordinating governmental buying in the United States. The Interallied Council on War Purchases and Finance was organized through the efforts of our Treasury for the purpose of considering and coordinating the demands of the Allied Governments upon the United States Treasury. Later the War Industries Board was organized and passed upon the necessity of purchases on our markets by our Government and by foreign governments as well, and the Treasury in general required the Allied Governments to obtain the consent of the War Industries Board to their purchases of commodities in the United States. Purchases of food in the United States by the Allied Governments were made only if the consent of our Food Administration was obtained, and purchases of fuel (coal and oil) only if the consent of our Fuel Administration was obtained. Arrangements were also made with our War Trade Board whereby the issue of export licenses to the Allied Governments was withheld except for commodities purchased with the approval of one or the other of the above-mentioned agencies.

The organizations effected by our Treasury and our Government proved to be of considerable value to the missions of the foreign governments making purchases in the United States in aiding them to make their purchases on the best possible terms. War prices were high in the United States, as elsewhere. That war prices in the United States did not go much higher than they actually did was due to the efforts of our Treasury and our governmental agencies to eliminate competition among governmental buyers, to coordinate purchases, and to check price inflation as far as practicable.

The annual report of Secretary of the Treasury Houston of 1920 contains an interesting analysis of the expenditures in the United States of the dollars which we loaned to the Allied Governments. From this analysis has been prepared the following table, in which fractions of $1,000,000 have been adjusted, dealing with the advances, repayments, expenditures, etc., of Great Britain, France, Italy, and other countries for the period April 6, 1917, to November 1, 1920.

	Great Britain	France	Italy	All others	Total
Cash advanced	$4,277	$2,997	$1,631	$680	$9,585
Less refunds and repayments	80	31		8	119
Net	4,197	2,966	1,631	672	9,466
Expenditures:					
Munitions and remounts	1,331	827	259	77	2,494
Munitions for other governments	205				205
Exchange and cotton	1,683	807	87	68	2,645
Cereals	1,375		42	5	1,422
Other foods	1,169	295	142	24	1,630
Tobacco	99	41		5	145
Other supplies	215	277	63	58	613
Transportation		32	100	4	136
Shipping	49	122	1	1	173
Reimbursements	19	1,046	784	24	1,873
Interest	388	269	58	16	731
Maturities	353	290		5	648
Relief	16	143	16	363	538
Silver	262	6			268
Food for Northern Russia	7				7
Purchases from neutrals			19		19
Special for U. S. war purchases in Italy			25		25
Miscellaneous	48	41	56	24	169
Total reported expenditures	7,219	4,196	1,652	674	13,741
Less—					
Reimbursement from U. S. credits	1,854	19			1,873
U. S. dollar payments for foreign currencies	450	1,026	14	1	1,491
Proceeds of rupee credits and gold from India	81				81
Total deductions	2,385	1,045	14	1	3,445
Net expenditures	4,834	3,151	1,638	673	10,296

It will be observed that this table shows expenditures reported to the Treasury exceeding by $830,000,000 the total amount of our loans within the period, and yet the expenditures for the full period had not been reported to the Treasury by many of the governments. It will doubtless be impossible ever to bring about an exact balance between the amount of our loans and the expenditures reported by the Allied Governments. As the Treasury would not in general make loans to an Allied Government so long as such government had available for use dollars however obtained, it is necessary in attempting to balance our dollar loans to the Allied Governments with their dollar expenditures to take into account the dollars which were or became available to the Allied Governments from sources other than our loans. When we entered the war a certain amount of dollars were available here to Allied Governments. After hostilities ceased there was some liquidation here by the Allied Governments of supplies they no longer required, which produced dollars. After the armistice the Treasury urged the Allied Governments to provide their dollar requirements through independent action on our financial markets. The British, French, Italian and Belgian Governments all found means to obtain dollar funds here. Even during the war dollar funds were to some extent provided by some of the Allied Governments. The support of Italian exchange resulted, not in dollar loans to Italy for that purpose, but in dollar balances here in favor of the Italian Treasury derived from private purchases of lire on our market. Various departments of our government became indebted to Allied Governments for services rendered or materials purchased, for which payment was made in dollars. American securities owned or controlled by Allied Governments were disposed of in our market, thus increasing their dollar resources. All these factors must be determined and applied if a balance is to be struck between the amount of the dollar resources of the Allied Governments, including the dollars we loaned them, and their dollar disbursements.

Our loans naturally divided themselves, on the basis of time, into two classes: those made before the armistice and those made thereafter. The following table, in which fractions of $1,000,000 have been adjusted, shows the amount of our loans both before and after the armistice, up to November 1, 1920 (all of our loans after the armistice except to a comparatively insignificant amount were made before November 15, 1919), after crediting repayments on account of principal prior to that date, all of which repayments were in the nature of bookkeeping entries except the payment of $500,000 on account of its obligations by the Government of Cuba:

Period	Great Britain	France	Italy	All others	Total
April 24, 1917 to Nov. 15, 1918	$3,696	$1,970	$1,051	$381	$7,098
Nov. 15, 1918 to Nov. 1, 1920	501	996	580	291	2,368
Total	4,197	2,966	1,631	672	9,466

In general, we made our loans for the same purposes after the armistice as we did before. Our Treasury absolutely declined to make post-armistice loans for reconstruction or trade purposes. We did loan in the aggregate some $48,000,000 in substantially equal parts to Great Britain, France, and Italy to purchase foodstuffs and relief supplies which those countries furnished Austria. The loan made to Great Britain for this purpose has been repaid to us. Our Treasury had no authority to make loans to Austria, an enemy country, and it was important as a war purpose that relief should be furnished Austria to prevent the spread of anarchy which might have led to a resumption of hostilities, and delayed the ending of war. For the same purposes we made loans direct to Czechoslovakia, Rumania and Serbia. For a time we continued after the armistice our loans to the Belgian Government for use by the Commission for Relief in Belgium. Loans were also made in relatively small amounts to Czechoslovakia, to furnish part of the cost of returning soldiers to Europe. Prior to the armistice, in lieu of complying with M. Clemenceau's request for 1,000,000,000 francs in gold, to which reference has been made, we had established in favor of France an effective credit in the sum of $200,000,000. This credit the French Government had transferred to the Bank of France, and the Bank of France had included the same as part of its reserves. The Bank of France drew dollars against this credit only after the armistice.

When it is recollected that at the time of the armistice we were loaning Great Britain only the dollars needed to meet her day-to-day expenditures, the aggregate of our net post-armistice loans to her of about $500,000,000 seems exceedingly moderate. At the time of the armistice Great Britain was obligated to make dollar payments against deliveries under existing contracts. In March, 1919, the British Treasury estimated its outstanding dollar commitments at about $273,000,000 in addition to about $88,000,000 interest on our loans to Great Britain which became payable and which was paid during April and May, 1919. It was not until some time after the actual signing of the armistice that the Allied and Associated Governments became reasonably certain that hostilities had come to an end, and until so satisfied it was impracticable for them to begin demobilization or to cut down a considerable part of their dollar expenditures here. Our net post-armistice loans to Great Britain were kept down only because of her other dollar resources, including dollars paid to Great Britain by the other Allied Governments under the dollar reimbursement plan.

The French and Italian post-armistice net borrowings included in the case of France the advances of the $200,000,000 effective credit assigned to the Bank of France, and in the case of both France and Italy loans made to enable those countries to reimburse Great Britain for purchases made by Great Britain for the use of France and Italy, respectively.

Consideration has here been given only to the bulk of our loans. There are few rules without exceptions and special circumstances had to be given weight in certain cases, but in general the principles stated, which were formulated by our Treasury, were carried into effect, sometimes through the use of complicated methods of procedure forced by war conditions.

The purpose of our loans to the Allies was to win the war. They were made without stint but without waste. We supplied to each country availing of our loans all the dollars each required in excess of its own dollar resources available for purchases in the United States. The dollars we loaned, used in this country by the Allied Governments, were expended for purposes approved by our own governmental agencies. We did not make loans for purposes which in our judgment were unnecessary and not calculated to help win the war. We kept the amount of our loans down by requiring the countries borrowing of us to use to the extent available their other dollar resources for purposes we approved. In conjunction with Great Britain we furnished the finance required to effect necessary war purchases of other Allied Governments in neutral markets. Upon final adjustment we held the promissory notes of each Allied Government to which we had made loans, in an amount corresponding with the financial assistance we had furnished it under the general principles herein outlined.

EXHIBIT No. 2782

JUNE 10, 1918.

Memorandum for the Secretary.

As you doubtless recall, the British Government had a secured loan in the amount of $102,000,000 in our markets which matures on the 1st of September. I do not think that, with the greatly increased program of our own expenditures and the tremendous issues of Treasury certificates which we must be making from now forward, it will be possible for the British to finance a renewal of this loan on reasonable terms nor do I think it would be wise for us to permit the British to resume sales of American securities. This would have a very depressing effect on the market for securities and tend to make it difficult for us to get the money we need ourselves. On the whole, I am inclined to think that if we stand firm in the position outlined in the draft reply to the Chancellor of the Exchequer as to financing the Allies in neutral markets and British dependencies, we might well provide for the financing of the Allies' maturities in this market. That is no strain upon our own financial resources because no money goes out of the country, and by paying off these maturities we release credit for our own purposes. I think the borrowing on the part of the British Government on our markets on extortionate terms would be injurious to British credit, create an unfavorable impression as to the extent of the sympathy between the two governments, and impair our own position because of the discredit it would throw upon the credit of our largest debtor.

I am disposed to suggest that when you go before Congress in connection with the new bond bill you should make a brief statement of the change in the situation which has developed since the first bond bill, which has made it necessary for us to do two things not then contemplated; first, to provide a certain amount of finance outside of the United States; and, second, to meet the maturities of the Allied Governments on obligations in the United States incurred before the United States entered the war. I am confident that the change in the war situation, our own increasing activity and the great enthusiasm of the people will make this easy to do, and, the parliamentary pledges once out of the way, we would be free to deal with the situation as it arises from time to time.

We should, of course, in connection with taking up the maturities get assurances, in respect to the collateral, satisfactory to you.

I have specially referred above to the loan which is in the hands of the public, rather widely distributed, maturing September 1. I am inclined to think it might be well from time to time gradually to enable the British Government to reduce the overdraft and also the British Exchequer bills which are being sold on a 6% basis all the time and have many attractions which interfere to a certain extent with our 4½% certificates. The exchequer bills and the overdraft together aggregate about $200,000,000 today.

(Initialed) R. C. L.

EXHIBIT No. 2783

[File copy]

OCTOBER 2nd, 1917.

To the Rt. Honourable Lord READING.

DEAR LORD READING: In reference to the attached memorandum, it may be well for me to explain one or two points in the situation which have changed since my talk at Washington:

(A) The fresh legislation spoken of under this paragraph has now been accomplished, and there is no awkwardness in lending to Great Britain and to the other Allies for any purpose, past, present, or future;

(F) The remarks at the end of this paragraph refer to the conferences which finally resulted in the Secretary giving us permission to put out the Treasury bills, this having been taken up in a letter which I wrote to him and to the terms of which he consented.

Very truly yours,

——— ———.

EXHIBIT No. 2784

[Cablegram]

(Date in pencil) JUNE 30, 1917.

AMERICAN AMBASSADOR,
London, England.

The Secretary of the Treasury requests that the following despatch be transmitted to the Chancellor of the Exchequer:

In the exercise of the discretion imposed by an act of Congress approved April 24, 1917, permitting loans to foreign governments engaged in war against the Imperial German Government up to a total of $3,000,000,000, I find it desirable to obtain information which, in my judgment, properly enters into the making of determinations in the matter in question, and which Your Excellency may perhaps be willing and able to furnish us.

Up to this time, I have, with the President's approval, authorized various loans to your Government now aggregating $585,000,000. On May 1, your Ambassador submitted a statement indicating the desire of your Government to borrow, for expenditure within a period of six months, the sum of $1,500,000,000. About the same time, other belligerent governments, through their proper representatives, submitted similar statements indicating their desire to borrow sums which, added to your Government's figures, in the aggregate exceeded the $3,000,000,000 authorized for these purposes by the statute above mentioned. The Government of Russia did not at that time submit such representations, but has since requested a credit of $100,000,000, which has been established in its favor, and its recently arrived representatives here now indicate their desire to submit further representations calling for large sums not yet fully indicated.

These facts are stated in order that Your Excellency may more clearly understand the difficulties attendant upon the determination, first, of the period over which an allocation of the total of $3,000,000,000 should be made if it seems best thus to allocate the total, and second, as to the division between the various belligerent powers engaged in war against Germany. In addition to the sums above mentioned advanced to your own Government and that of Russia, the following sums have been loaned or credits established: France, $210,000,000; Italy, $180,000,000; Belgium, $45,000,000; Serbia, $3,000,000. During the last sixty days, representatives of your Government have been called upon to purchase considerable sums of exchange upon London offered in New York, and have forcefully represented the great importance of maintaining British exchange at the rate now established. I am also informed by them that your Government owes various American banks a sum approximating $400,000,000, practically on call, although at present, according to verbal information furnished, these loans seem to be protected by a pledge of all the American securities controlled by your Government and which had not previously been pledged as collateral for specific loans of longer duration. I have been informed that your Government has guaranteed on behalf of the Russian Government, contracts which originally amounted to approximately $200,000,000, upon which your Government has paid various sums, among others about $58,000,000 during the last sixty days. No request has been made upon this Government by the Russian Government for loans to cover their remaining obligations on these contracts. The Government of Belgium on June 5, 1917, through its Minister, made application for a loan of $10,000,000 in addition to the loan above mentioned, stating that your Government had declared to them that it would be impossible that further sums should be paid by it on Belgian account for purchases in the United States, and that said sum of $10,000,000 is now in arrears in this country. No lists have been submitted either by your own Government or by the Belgian Government indicating what these accounts are. The Belgian Government further requests an additional credit of $1,500,000 per month for a period of six months in advance. In view of the above recital, I have the honor to request that you be good enough to indicate to me:

(1) Whether your government desires that the Government of the United States shall in any way render assistance in the matter of maintaining British exchange save insofar as the establishment of credits for purchase in the United States of materials needed in the conduct of the war by your government should contribute to the maintenance of the existing rate:

(2) Is your government prepared to continue payments on Russian account for any of the sums in which that government may become indebted pursuant to the execution of the above-mentioned contracts, and if your Government should be relieved of its responsibility in this matter, is there any consideration originally

connected with the undertaking by your government of this credit which could be transferred to the United States Government;

(3) If other countries now neutral should declare war against the Imperial German Government, would your Government be prepared to assist such powers financially in the conduct of the war, and if so to what extent? Is the policy of your Government to encourage entrance into the war against Germany of any powers now neutral, and if so, what are such powers and upon what conditions does your Government consider it desirable that they should enter the war?

(4) In respect to loans heretofore made since the war by your Government to other belligerents, will you be good enough to state the amounts, maturities, and interest rates of such loans?

(5) As it is important to know your financial commitments in this country, may I be supplied with an official list of the debts of your Government in the United States, with a statement of their maturities, rates of interest, and the collateral if any pledged as security therefore, and engagements of probabilities if any of their renewal?

(6) Intimations having been received that the Government of Canada would soon be embarrassed if it did not receive financial aid from the United States, it would be desirable to learn from you whether your Government expects to continue such support as may be required by Canada for maintaining such military activities as it may determine upon, and whether we have been correct in assuming that the sums which your Government has indicated its desire to have advanced to it include the requirements for Canada, it being understood that according to the statute under which I am acting no loans could be made directly to the Canadian Government.

(7) Understanding from a recent announcement by Lord Curzon in the House of Lords that your Government is now engaged in constructing large additions to your navy, apparently with a view to attaining greater proportions than are required for the operations of the present war, I would be glad to be informed as to whether it would be possible for your Government to modify its plans, if Lord Curzon has been correctly reported, and thus perhaps to directly diminsh the need of borrowing money from the United States. The statement to which reference is herein made is quoted in newspaper despatches in the following terms: "The Admiralty has first claims upon the ship-building facilities of the United Kingdom, and at the end of the war the British navy will be found to possess a tonnage greater than the navy tonnage of all of the rest of the world combined."

(8) As affecting the probable future ability of various Governments involved to meet their obligations, may I venture to ask whether your own Government has given or received, in connection with loans made to other belligerents, or otherwise, any preferential trade relations effective either during the war or after?

(9) In this same connection it would be desirable to know whether any territorial determinations or engagements of any kind have been entered into, with the understanding that they should be put into effect in case military successes of those engaged in war against Germany would permit, and, if so, what are such engagements?

(10) Am I to understand that the statement of May 3, submitted by your Ambassador remains as a statement of the total amount that your Government desires to borrow, less the amount already advanced for expenditure, during the remainder of the period of six months dating from May 3, 1917? In this connection, permit me to point out that approximately $170,000,000 of the amount therein indicated as probably required was, according to statements made here by your representatives, for payment on account of ships being built in the United States for British account, and that at present it appears that not only will this amount be relieved from your Government as a probable expenditure, but that a sum of approximately $60,000,000 will be repayable to your Government when said ships shall be taken over by the Government of the United States. As the remainder of the period of six months covered by your Ambassador's statement of May 3 is now but four months, I should be glad if you would indicate the amount of loans which your Government would desire to obtain from the Government of the United States for expenditures during a succeeding period of six months, and also the nature of the expenditures, if such loans are desired.

("Exhibit No. 2785" appears in text on p. 8999.)

("Exhibit No. 2786" appears in text on p. 9000.)

("Exhibit No. 2787" appears in text on p. 9000.)

("Exhibit No. 2788" appears in text on p. 9001.)

("Exhibit No. 2789" appears in text on p. 9004.)

Exhibit No. 2790

Treasury Department,
Washington, July 21, 1917.

My Dear Mr. Secretary: Yesterday the Russian Ambassador presented his Government's request for financial assistance for the remainder of the current year. The total is $733,000,000 for a period of about five months. This may be roundly taken as a sum of $150,000,000 per month. This figure includes, however, approximately $150,000,000, which in the nature of the case will go over into the succeeding months in 1918 for actual payment. Roughly, therefore, there remains something like $120,000,000 per month requested by the Russian Government as absolutely essential to its successful conduct of the war.

Among the items shown are two to which I invite your especial attention. These are: (1) A large sum destined for the purchase of rubles in order to prevent the drop in the price of Russian money which is now becoming disastrous; and (2) an item running into a good many millions for the payment of indebtednesses of Russia in Sweden. Attention is called to these two specifically because they open a vista of unknown magnitude, bounded neither by limitations of shipping nor by limitations in the capacity of our market to meet the foreign demand. As you will recall, there have already been requests for the expenditure of money as such in distant portions of the theater of operations for the Russian Army.

You have also in the last few days received notifications, more or less explicit, of the desire of other belligerent powers to borrow from the United States for expenditures considered necessary by them in countries outside of the United States. The question of the maintenance of the exchange of several foreign powers besides Russia, whose specific figures are now submitted to you, is also indicated as presently to be urged upon your consideration.

In the approximate estimates which I handed you a few days ago, indicating the period of exhaustion of the fund for foreign powers in your hands, I took as a basis approximately $500,000,000 per month as the present rate of loans. In that figure, however, Russia was figured at only $50,000,000 per month. If her requests as now submitted should be acceded to, obviously the figure used by me must be increased somewhat.

The charges upon our Treasury due to this foreign demand are now growing so heavy that, in connection with our own war expenses, a grave problem is presented to you in the mere matter of finding the money fast enough to meet all these demands. That phase of the situation, however, is one which for the moment I am not endeavoring to cover. It seems to me that, independently of that great difficulty, the magnitude of our loans to foreign governments is such as to justify on the part of the United States Government a more searching inquiry than it has yet made into the general conduct of the European war. The inquiry if made promptly would at least give to our Government a better knowledge than it now possesses of the probable duration of the expenditures which now press so hardly upon it. And, further, our own military preparations and operations would be the more wisely conducted if we had carefully weighed the financial, political, and military conditions of those with whom we are associated in a war which will be exhaustive to our own country if expenditures are continued at the present rate.

In this connection, it is well to note that we are now, for war purposes alone, spending or appropriating a great deal more money than the German Government has spent on an average in carrying its whole burden for the past three years. The war debt of Germany is published as approximately $20,000,000,000. That is at the rate of a little less than $7,000,000,000 per annum. We are lending to our associates at the rate substantially of $6,000,000,000 per annum solely for their purchases in the United States. The indications given above show that the demands will soon exceed that amount, and they will be presented as being *absolutely essential* for the conduct of the war. In other words, the expenditures of our associations in the United States alone may be taken as substantially equal to the total war expenditures of the German Government.

What are associates are spending in Europe, we do not now know, save as is indicated by the total of their war debts thus far published. Published figures are perhaps, however, not reliable. It is not necessary now to be exact in the matter. It is sufficient to dwell upon the fact that the expenditures of our associates in the war, including our own, are approximately three or four times as great as those indicated by the German war debt. In addition to this drain upon the resources of the countries making war against Germany, it should be noted that the monthly destruction of a million tons of shipping represents approximately $500,000,000 of loss per month. These figures cannot be made accurate without a great deal more research than is possible now to me. I am taking, roughly a figure of $150 as the value of the tonnage itself and the remainder of the $500 per ton to cover the value of miscellaneous cargo and the expenses of transportation, in the destruction of these ships which fails to complete its journey. Without attempting to distribute this loss between the various nations engaged in war against Germany, we should yet bear in mind that there is this diminution at the rate of $6,000,000,000 per annum in the available resources of the countries with which we are associated due to the submarine warfare alone. These figures marshalled together indicate that we cannot be confident that financial exhaustion will fall earlier upon Germany than upon those engaged in war against her. It seems also apparent that we cannot count upon the exhaustion of supplies, either of food or munitions, as occurring earlier in Germany than possibly in England, where supplies of food particularly are seriously menaced by the submarine, and in Italy, where supplies of coal are even more critically threatened.

As the general situation which I have endeavored above to define in certain figures is entirely familiar to you, I shall not go further in endeavoring to portray it. The conclusions which I should like to call to your attention are these:

A study of the whole operation of the war by American authorities should now be undertaken, with two objects in view, first, to determine whether or not the cost of carrying on the war can be in any way diminished without impairing the efficiency of the military operations as such; and, second, to determine whether there is any great change in those military operations which may be urged upon our associates in the war with a view to bringing a military conclusion to the struggle. These two questions are, of course, closely linked together. The carrying out of the second point might require for a time even a larger expenditure on our part than we are now undertaking; but that, in turn, might be wholly justified if a great military move should result in a considerable shortening of the war.

Among the suggestions which, in my judgment should be at once considered as involving both of the questions just above raised, I note the following:

(1) The use of Italy's soldiery not required for defending the Italian frontier or for continuing the offensive directed against Trieste. It seems not improbable that something like a million and a half Italian soldiers might be made available in other theaters of war if the political and financial questions involved were properly solved. It is not necessary in order to appreciate the importance of this observation to endeavor to determine now where those men should be used, whether on the western front or in Salonica, or even further in Asia Minor.

(2) In my judgment, the whole question of the Salonica situation should be freshly studied in order to determine whether the 500,000 men there established should be and can be so strengthened as to warrant an offensive, or whether, on the other hand, it could be diminished, if necessary, to a force sufficient merely to hold the Grecian front against enemy attacks. In this is involved the question of the desirability of Grecian belligerence, as compared with Grecian armed neutrality. Obviously, the Allied Powers in Europe have been hasty in determining that Roumanian belligerency was more desirable than Roumanian neutrality. The same error may be involved in their attitude toward Greece. *If* the armies in Greece can be strengthened and properly supplied for the necessary military operations, then Greek belligerency seems very desirable, and from it should follow a vigorous attack upon the railway line at the nearest point, which is approximately eighty miles away, and which, being cut, would very largely cut off the communication between Germany and Turkey. There is, of course, one other line which now permits communication. But it is probable that, being successful in the first undertaking, we might reasonably hope to cut also that

line, particularly as Bulgaria has been represented by Americans who have somewhat recently returned from that country as being ready to enter into some sort of armistice arrangement, if not to make a separate peace. The latter, of course, would be a highly dangerous operation, indeed quite an impossible one unless the Allied Armies intervened between Bulgaria and Germany.

(3) I have talked recently with Americans lately returned from Turkey and Asia Minor. The indications are that there are possible weaknesses in the Turkish situation which, apparently, at relatively small cost, might be turned into a considerable disruption of German power in that region. I am aware that any suggestion of our cooperation with our associates in this theater of war involves the very undesirable step of a declaration of war against Turkey. Yet it may well seem wise to take all these steps if serious blows can thus be dealt tending to hasten the time when Germany will find herself unable to hope for a successful conclusion to the war.

(4) Further assistance from Japan may possibly be obtained if certain very grave political and racial prejudices can be eliminated. I do not at all underrate these difficulties, the importance of which will be quickly appreciated by any American if he supposes the problem to be presented of having Asiatic armies invited to operate in America. Nevertheless, the situation of the world is such that, in my judgment, every tradition and every prejudice should now be challenged; and if it seems probable that the sacrifice of such prejudice may tend to an earlier winning of the war, then that sacrifice should be made.

(5) While we have no direct part in the operations of the Russian Army in Persia and Asia Minor, yet it seems to me wholly sensible that we should be informed of what is being done there; and that, having been informed, we should at least, if our representatives come to have positive opinions on the subject, represent those opinions to Russia and Great Britain, since both of those powers have now stated to you that they are wholly dependent upon help from the United States for continuing the war. Indirectly, we are supporting every effort throughout the world made by any of our associates in the war.

I have not referred above to any inquiry into the political relationships of Europe save those that may be necessarily involved in a determination of any new military moves which our representatives might desire to suggest to our associates. It is quite within my duty to report to you that the Serbian Minister urges, on behalf of his country, that the United States should inform itself of the political determinations that have been made between the Allied Governments since the beginning of the war. The strong desire of the Belgian representatives for an independent financial relationship with the United States in preference to a satisfaction of their needs through English and French channels suggests the same uneasiness on the part of small nations in Europe as to the results to be gained from the war, even on the supposition of a marked success for the arms of the Allies, unless the power of the United States should be felt in the political field as well as on the field of battle.

However much concern I may feel as an American citizen in respect to the policy of my Government as to intervention in political relationships of the Allies, I am not now urging upon your attention that point, but rather those points only which have to so with a successful issue of the war, as war. I am perfectly convinced that out Government is not now in possession of the information that it should have merely as a belligerent nation and for its belligerent purposes.

I have some particular steps to suggest concerning methods of obtaining the information which we should have, but in the haste of this writing I cannot lay them before you. I am concerned now to emphasize to you the importance of the general question covered by this communication.

Very hastily yours,

/s/ Oscar T. Crosby,
Assistant Secretary.

Exhibit No. 2791

[Submitted for record Jan. 15, 1936]

Statement by J. P. Morgan & Co.

Statements heretofore made in various public addresses by members of the Senate Munitions Committee indicate their belief that the activities of American business and of American bankers were a chief factor having to do with America's entry into the World War.

If there is one thing certain, it is that the whole American people are determined today to avoid war. The only question is as to the best means to attain that end. Quite properly, we are studying today the events of twenty years ago, to learn from history how to chart our course now. Before the overwhelming importance for us all to keep our country at peace, it is of small moment whether any particular theory of history is vindicated. It is, however, of very grave moment that a nation should not chart its national policy toward other nations on the strength of fatal misapprehensions about the past. When peace and war are at stake, we cannot afford the luxury of bad history.

WHEN AMERICA ENTERED THE WAR

The World War began in the early days of August 1914. Two years and nine months later the United States Congress by an overwhelming vote (82 to 6 in the Senate and 373 to 50 in the House) confirmed President Wilson's message of four days earlier, and declared that a state of war existed between the United States and Germany It is a fair question to ask whether President Wilson, distinguished for his persistence in the advocacy of peace and a Congress re-elected in 1916 on the same anti-war platform, were influenced in declaring war primarily by economic factors, and particularly by industrialists and bankers.

MR. MORGAN'S INITIAL STATEMENT

On the very eve of the war, Mr. J. P. Morgan issued on July 31, 1914, a public statement expressing the earnest hope that a general conflict in Europe might be avoided, and warning that "the wholesale waste of capital involved in such a catastrophe would result in a distribution of losses the world over." He, in common with millions of his countrymen, realized that such a war would be a disaster for the whole world.

THE ADMINISTRATION'S NEUTRALITY DECLARATIONS

On August 4th, immediately following the outbreak of war, President Wilson issued a proclamation of neutrality, pointing out that American citizens were free to trade with the belligerent countries in any products whatever, including munitions of war, and reserving the "right of free and full expression of sympathies in public and private." This official declaration regarding trade was supplemented on August 15th and on October 15th by more complete statements from the Department of State, reaffirming the right of American citizens to trade all over the world.

In December 1914, the German Government, through its Ambassador von Bernstorff, confirmed and avowed the same neutral rights of trade with belligerents that the American Department of State had set forth. Germany throughout the war carried on an enormous trade with and through the European neutral countries. Secretary Bryan himself did not question the legality or propriety of trade with belligerents.

AMERICA IN THE MIDST OF A DEPRESSION

The immediate effect of the outbreak of the World War was catastrophic in this country as well as abroad. Export and import trade came to a standstill, the investment markets and foreign exchange were completely demoralized. There were American maturities abroad of close to $100,000,000 which were in serious danger of immediate default.

Further, the catastrophe of the war fell during a period of hard times that had continued in America for over a year. Business throughout the country was depressed, farm prices were deflated, unemployment was serious, the heavy industries were working far below capacity, bank clearings were off.

A marked change, however, became evident in the late autumn of 1914. This change was due to the heavy buying of American products by the belligerent governments; the favorable effect upon agriculture upon the cotton industry, and upon manufacturing becoming plainly evident by November of that year. The American community welcomed, with a feeling of relief, the orders coming from Europe, for at that time such purchases meant that America still a debtor country, could meet its foreign obligations by the shipment of commodities and goods. And as our foreign trade grew, unemployment decreased and pay rolls increased.

PURCHASE ARRANGEMENT FOR ENGLAND AND FRANCE

Allied governmental buying was, however, confused and disorganized in the extreme. The result was added confusion in the American markets, and frequently runaway prices. The British Government, realizing the waste incident to its confused purchasing, made an arrangement, publicly announced on January 16, 1915, to handle through us the bulk of its buying in the American markets. The French Government made with us in May 1915 arrangements identical with those existing with the British.

When these agency agreements were entered into neither the foreign governments nor we had the slightest idea of the magnitude that the American purchases would attain. Lord Kitchener, Minister of War, declared to the late Henry P. Davison, who negotiated the arrangement for our firm, that his Government's purchases here would not exceed the sum of £10,000,000. Yet the fact is, as more than once published, that the total of our purchases for the Allies (roughly two-thirds being for Great Britain) reached $3,000,000,000 over the years of our work. Our commission approximated 1%.

RAPID INCREASE OF AMERICAN EXPORTS

Our purchases for the two Allied Governments, and in a few instances for other Allied governments, through the medium of the British Government, although they included an enormous variety of agricultural and industrial products, were less than one-half of the total imports from America by the Allied belligerent countries in the period under discussion. America's export trade, as the figures show, increased enormously also to the world as a whole; growing from $2,364,579,148 for the year ending June 30, 1914, to $6,290,048,394 for the year ending June 30, 1917.

WITHDRAWAL FROM PURCHASING

Almost coincident with the American declaration of war against Germany, the late Edward R. Stettinius of our firm (who had been in complete charge of the purchasing, or Export Department as it was called) made known to the British and French Governments our desire to withdraw from the Purchasing Agency arrangements. It was clear that the United States Government could best handle the whole purchasing situation of the Allied Governments.

LOANS TO ALLIED GOVERNMENTS

We turn now to the other phase of our activities, namely the arrangements in which we took a leading part to enable the two Allied Governments to pay for a part of their American purchases "on time." At the outset it should be said that the amount of unsecured Allied borrowing in this country, through the medium of public loans, has frequently been much exaggerated. The unsecured loans came to hardly more than 15% of the total American purchases of the four chief Allied belligerent nations.

The first bond issue of importance offered by the Allies in the American investment markets was the Anglo-French loan of $500,000,000 in October 1915, made with the cognizance of the Washington authorities; the Bryan ban against public loans, which we had scrupulously observed, having been withdrawn some time before. These bonds bore the joint and several obligation of the two Governments involved, were distributed to insurance companies and investors, and were actively traded in on the New York Stock Exchange.

AMPLE COLLATERAL SECURITY

Following this loan all the public issues of the British and French Governments that were handled by our firm were secured by collateral, chiefly American and other neutral securities, having a market value 20% in excess of the face value of the loan. Of such secured loans issued prior to America's entry into the war, there were three for the British Government aggregating $800,000,000, with collateral security valued at upwards of $1,000,000,000. There were two loans for the French Government aggregating $200,000,000 with security valued at $240,000,000. On these operations, including the Anglo-French, our profit averaged a trifle under ¼ of 1%.

We call particular attention to the secured nature of these loans, because there has been an impression fostered in certain quarters to the effect that the Allied loans were worthless unless America entered the war; that the holders of these loans urged our Government into the war "to make the loans good." There was nothing in the facts remotely justifying this fantastic theory. The loans were always good. No one feared for their safety.

ATTITUDE OF AMERICAN INVESTORS

Before the issuance of these loans, American investors had never been accustomed to buy foreign Government securities on any considerable scale, and even with the successful offering of these loans it is estimated that the number of American investors in them hardly exceeded 400,000 individuals out of a total population of 110,000,000. And no investor puts more than a fraction of his means in any one bond. Who were the holders in this group who, as alleged, were so fearful about the goodness of their investments that they brought pressure upon President Wilson and the Congress to get us into war?

Investors do not act like that. If they thought any of their bonds were in jeopardy they would promptly sell them, rather than hazard their all in a war. Every administration at Washington is interested in the prosperity of the American people. But does any one believe that President Wilson or the American Congress was concerning itself with the safety of scattered bond holdings, whether owned by investors or bankers?

THE BRITISH DEMAND LOAN

In addition to these public issues, there were some banking credits arranged by ourselves and other houses, which were promptly liquidated upon maturity.

There was also the so-called Demand Loan to the British Government, which was shared in by ourselves and by various other banking institutions. At the time of America's entry into the war this amounted to about $345,000,000, amply secured. After a reduction it expanded shortly to about $400,000,000 with collateral valued at over $700,000,000, of which over $462,000,000 was in American stocks and bonds. We mention particularly the security behind this loan, because a member of the Senate Committee of inquiry only last spring characterized the loan as "uncollectible."

HOW ALLIED PURCHASES WERE PAID FOR

In any examination of the manner in which the allied nations paid for their purchases in America, careful account should be taken of the many sources for payment available to, and utilized by, them. These sources included invisible items, such as England's income from her American investments and from her shipping receipts; the heavy short-term debts owed by America in Europe at the outbreak of the war, estimated by the United States Treasury at upwards of $500,000,000; gold shipments to America amounting in the three neutral years to over $1,100,000,000; sale or pledge in our markets of American and neutral securities held by citizens of the allied countries, estimated at more than $3,000,000,000; and finally America's heavy imports of over $1,100,000,000 from the allied countries—all these sources being liquid and readily available.

BALANCE SHEET OF PAYMENTS

A very rough estimate showing how the Allies (Great Britain, France, Italy, and Russia are included) paid for the goods they imported from the United States prior to April 1, 1917, would show about like this:

American exports to Great Britain, France, Russia, and Italy		$7,000,000,000
Paid for by imports to America and normal invisible items, about	$1,600,000,000	
Paid for by gold	1,100,000,000	
Paid for by liquidation of short-term American debts abroad, estimated by U. S. Treasury as exceeding	500,000,000	
Paid for by sale of securities and other assets, say	1,400,000,000	
Paid for by pledge of securities (collateral loans)	1,400,000,000	
Paid for by *unsecured* loans, not to exceed	1,000,000,000	
		7,000,000,000

Even a cursory study of these round figures serves to indicate how limited a part unsecured Allied loans played in financing Allied requirements in America and in the general economic situation here.

ECONOMIC FACTORS IN THE WAR

In every great conflict the economic factor of course exists. Nobody would for a moment ignore or deny it. But it is easy to exaggerate the importance of this or any other single influence. From the start, opinion throughout the entire American community, not limited to those agricultural, industrial, labor, commercial, and banking groups that were benefiting by trade with the Allies, was heavily in favor of the Allied cause. American investors bought Allied securities because they believed in the soundness of the securities offered, and because they already favored the Allied cause.

NO INCENTIVE FOR WAR EXISTED

Neither sympathy with the Allies from the outset nor sales to the Allies later meant, however, that the American people wanted to get into the war. On the contrary there was strong country-wide sentiment against participation in the conflict by the United States. To whatever extent, if any, the so-called economic tie-up with the Allies was a war cause, such tie-up applied not to any single groups, be they industrial, agricultural, or banking, but to the whole country which had shared in the prosperity due to the Allies' enormous purchases here of wheat, cotton, munitions, and other supplies. For two years or more American agriculture, labor, business, and banking had benefited in a material way from America's great export trade. They were having their profits or their rewards without war. What possible material advantage could it be to them to have America enter the war?

WHY PRESIDENT WILSON ADVOCATED WAR

Mr. Wilson made clear in his successive protests against the German submarine outrages what were the basic causes driving America towards the brink of conflict. He was having great difficulty with the British Government on the matter of contraband seizures, and with the German Government on the matter of submarine warfare. But he drew a sharp distinction between what he called America's "property rights" and her "human rights"; between his difficulties with the British, which concerned shipment of goods, and his difficulties with Germany, which concerned ruthless destruction of American lives. After all, the record of those successive submarine outrages upon American ships, with repeated loss of American lives, of President Wilson's infinitely patient protests to Germany, and of Germany's disregard of her pledges to our Government, reveal a primary cause, both fundamental and immediate, that finally drove America into war

JAN'Y 7/36.

EXHIBIT No. 2792

J. P. MORGAN & CO.

PRINCIPAL SOURCES OF DOLLAR INCOME OF BRITISH TREASURY QUARTERLY 1915 TO 1921 INCLUSIVE

(SOURCE: BRITISH GOVERNMENT TREASURY ACCOUNTS ETC.)

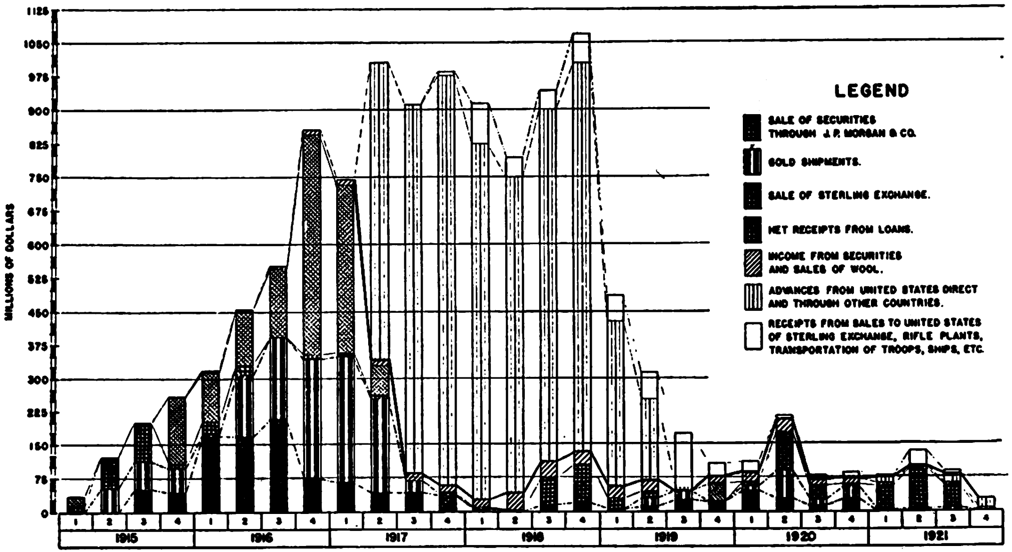

EXHIBIT No. 2793

Principal sources of income British Treasury

	First quarter	Cumulative	Second quarter	Cumulative	Third quarter	Cumulative	Fourth quarter	Cumulative
1915								
Sales of securities					51, 342, 835. 02	51, 342, 835. 02	46, 256, 407. 80	
Gold			54, 812, 437. 47	54, 812, 437. 47	64, 390, 728. 21	115, 742, 563. 23	52, 505, 066. 22	98, 761, 474. 02
Sales of sterling	13, 130, 102. 46	13, 130, 102. 46	68, 961, 250. 00	123, 773, 687. 47	84, 906, 472. 25	200, 649, 035. 48	11, 800, 091. 23	110, 561, 565. 25
Loans	20, 771, 644. 85	33, 901, 747. 31		123, 773, 687. 47		200, 649, 035. 48	152, 539, 080. 68	263, 100, 645. 93
Other British income		33, 901, 747. 31		123, 773, 687. 47	6, 045. 00	200, 655, 080. 48	247, 503. 52	263, 348, 149. 45
Total	33, 901, 747. 31		123, 773, 687. 47		200, 655, 080. 48		263, 348, 149. 45	
1916								
Sales of securities	173, 986, 791. 15	173, 986, 791. 15	174, 225, 241. 45	174, 225, 241. 45	211, 111, 477. 23		77, 481, 549. 17	
Gold	1, 487, 426. 09	175, 474, 217. 24	132, 181, 247. 25	306, 406, 488. 70	184, 562, 565. 41	395, 674, 042. 64	265, 617, 607. 97	343, 099, 157. 14
Sales of sterling	31, 588, 623. 35	207, 062, 840. 59	23, 325, 257. 99	329, 731, 746. 69		395, 674, 042. 64	4, 767, 792. 55	347, 866, 949. 69
Loans	109, 445, 814. 24	316, 508, 654. 83	127, 270, 556. 77	457, 002, 303. 46	152, 308, 581. 32	547, 982, 623. 96	498, 332, 974. 36	846, 199, 924. 05
Other British income	1, 280, 357. 09	317, 789, 011. 92	922, 800. 37	457, 925, 103. 83	4, 234, 906. 05	552, 217, 530. 01	6, 945, 461. 23	853, 145, 385. 28
Total	317, 789, 011. 92		457, 925, 103. 83		552, 217, 530. 01		853, 145, 385. 28	
1917								
Sales of securities	70, 600, 828. 15		44, 386, 765. 16		46, 303, 822. 23		35, 308, 723. 85	
Gold	282, 904, 705. 14	353, 595, 533. 29	213, 327, 894. 04	257, 714, 659. 20	27, 090, 422. 92	73, 394, 245. 15	437, 581. 06	35, 746, 304. 91
Sales of sterling	2, 269, 085. 73	355, 864, 549. 02	1, 290, 774. 94	259, 005, 433. 14	12, 266. 30	73, 406, 511. 45	1, 416, 962. 38	37, 163, 267. 29
Loans	380, 229, 575. 63	136, 094, 124. 65	73, 286, 448. 46	332, 291, 881. 60		73, 406, 511. 45		37, 163, 267. 29
Other British income	11, 428, 734. 36	747, 522, 859. 01	12, 240, 230. 78	344, 532, 111. 38	15, 981, 912. 33	89, 388, 423. 78	15, 165, 978. 18	52, 329, 245. 47
Total	747, 522, 859. 01		344, 532, 113. 38		89, 388, 423. 78		52, 329, 245. 47	
1918								
Sales of securities	6, 643, 905. 45		1, 645, 523. 92		14, 973, 692. 58		24, 061, 015. 19	
Gold		6, 643, 905. 45		1, 645, 523. 92		14, 973, 692. 58		24, 061, 015. 19
Sales of sterling	1, 359, 561. 00	8, 000, 466. 45	10, 068. 01	1, 655, 591. 93	63, 080, 848. 58	78, 036, 541. 16	83, 803, 438. 70	107, 864, 453. 89
Loans		8, 003, 466. 45		1, 655, 591. 93		78, 036, 541. 16		107, 864, 453. 89
Other British income	18, 777, 559. 68	26, 781, 026. 13	37, 185, 804. 30	38, 841, 396. 23	34, 332, 192. 47	112, 368, 733. 63	25, 061, 516. 60	132, 925, 970. 49
Total	26, 781, 026. 13		38, 841, 396. 23		112, 386, 733. 63		132, 925, 970. 49	

1919								
Sales of securities	5,656,410.18		9,033,915.69		28,469,815.67		23,570,937.13	
Gold		5,656,410.18	18,675,049.81	27,708,965.50	293,033.81	28,762,849.48		23,570,937.13
Sales of sterling	24,925,631.82	30,582,042.00	18,062,114.99	45,771,080.49		28,762,849.48		23,570,937.13
Loans		30,582,042.00		45,771,080.49		28,762,849.48	41,078,395.51	64,649,332.64
Other British income	25,730,974.40	56,313,016.40	24,231,915.85	70,002,996.34	18,471,842.79	47,234,692.27	15,833,244.80	80,482,577.44
Total	56,313,016.40		70,002,996.34		47,234,692.27		80,482,577.44	
1920								
Sales of securities	47,994,861.46		28,622,179.94		13,338,410.15		29,948,351.67	
Gold	9,108,606.44	57,103,467.90	63,234,138.14	91,856,318.08	14,900,114.71	28,238,524.86	28,633,436.78	58,581,788.45
Sales of sterling	9,725,000.00	66,828,467.90	89,570,000.00	181,426,318.08	31,965,000.00	60,203,524.86	4,100,000.00	62,681,788.45
Loans		66,828,467.90		181,426,318.08		60,203,524.86		62,681,788.45
Other British income	20,421,998.78	87,250,466.68	28,411,831.53	209,838,149.61	9,519,585.54	69,723,110.40	11,579,472.80	74,261,261.25
Total	87,250,466.68		209,838,149.61		69,723,110.40		74,261,261.25	
1921								
Sales of securities	1,134,549.82		203,514.96		1,382,791.73		183,185.79	
Gold	741,590.72	1,876,140.54	4,867,716.55	5,071,231.51	2,857,319.70	4,240,111.43		183,185.79
Sales of sterling	58,407,083.10	60,283,223.64	93,960,000.00	99,031,231.51	51,890,000.00	56,130,111.43		183,185.79
Loans		60,283,223.64		99,031,231.51		56,130,111.43		183,185.79
Other British income	5,696,356.88	65,979,580.52	5,175,143.32	104,206,374.83	2,985,523.01	59,115,634.44	4,175,363.98	4,358,549.77
Total	65,979,580.52		104,206,374.83		59,115,634.44		4,358,549.37	

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EXHIBIT NO. 2794

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, April 25, 1917.

[Copy of cable despatched 9:30 p. m. to Morgan, Grenfell & Co., London]

43249. 34992. Secretary of Treasury has issued temporary loan certificates maturing June 30th, at 3% amounting thus far to $250,000,000, of which $200,000,000 has been put through Federal Reserve Bank to us. We are not informed as to further programme but are inclined to believe additional similar certificates will be issued. We understand conferences are being held in Washington, D. C. to consider further advances not only to British Government but also to Italian and French Governments. At the request of Sir Hardman Lever, K. C. B. we are placing $100,000,000 in current account of British Government, applying the balance upon demand loan and interest thereon to date. We understand that authorities propose to issue long term 3½% bonds in latter part of June, but as yet we do not know for what amount.

MORGAN.

HPD.

EXHIBIT NO. 2795

[Release by J. P. Morgan & Co.]

THE BRITISH DEMAND LOAN

The attached letter from the British Treasury, here made public for the first time, describes the liquidation of the $400,000,000 collaterally secured demand loan made by a group of American banks to the British Government:

TREASURY CHAMBERS,
31st July, 1935.

(Any reply to this letter should be addressed to The Secretary, Treasury, Whitehall, London, S. W. 1., and the following number quoted: F. 14218.)

Messrs. MORGAN, GRENFELL AND COMPANY LIMITED,
G. P. O. Box No. 56, 23, Great Winchester Street, E. C. 2.

GENTLEMEN: I have laid before the Lords Commissioners of His Majesty's Treasury your letter of the 11th ultimo, with reference to the so-called "demand loan" which was arranged by Messrs. J. P. Morgan and Company on behalf of His Majesty's Government during the war. In reply I am directed to inform you that in the period immediately preceding the entry of the United States Government into the war it was the intention of His Majesty's Government to issue a market loan out of the proceeds of which the demand loan would be repaid. The proposal to issue a market loan at this time was, however, abandoned in deference to views expressed by the United States Treasury.

After the entry of the United States Government into the War on April 6, 1917, the United States Treasury expressed the wish that no part of the funds being advanced by them to His Majesty's Government should be used for the reduction of the demand loan which, at the time the United States entered the war, amounted to $345,500,000. Before this wish was expressed, $100,000,000 out of an advance of $200,000,000 made on April 25, 1917, by the United States Treasury to His Majesty's Government had been applied on April 26, 1917, temporarily against principal and interest of the demand loan. This amount of $100,000,000 was less than the expenditure of His Majesty's Government in the United States for materials, supplies, and exchange between April 6, 1917, and April 26, 1917. The increase in the demand loan between these two dates was $91,300,000. There were various debits to the demand loan and credits thereon (including the above-mentioned sum of $100,000,000) between April 6, 1917, and May 16, 1917, the net result being that the demand loan on May 16, 1917, amounted to $398,500,000 or $53,000,000 more than when the United States Government entered the war. The demand loan was not increased after May 16, 1917.

This demand loan of $398,500,000, in accordance with the wish of the United States Treasury, was eventually repaid out of the independent resources of His Majesty's Government, including $80,800,000 received from the United States Government for certain British ships taken over by the American authorities, proceeds of the sales of securities, gold shipments, and, from the spring of 1919 onwards, of purchase of exchange.

In this connection I am to observe that a periodical statement was supplied to the United States Treasury showing the utilization of all funds advanced by the United States Government in order that the United States Treasury might be in a position to verify that these funds had been applied only to such purposes as had been approved by them. These statements did not, of course, include any expenditure for the reduction of the demand loan and thus afford independent proof that it was repaid from other sources.

The disbursements by His Majesty's Government in the United States for materials, supplies, and exchange between April 6, 1917, and the date of the last advance from the United States Treasury were in excess of the entire advances made by the United States Treasury to His Majesty's Government (see pages 298–9 of the Combined Annual Reports of the World War Foreign Debt Commission).

I am, gentlemen,
Your obedient servant,

F. Phillips.

The British Treasury letter as above set forth was a reply to the following:

11th June, 1935.

The Secretary, Treasury,
Whitehall, S. W. 1.

Dear Sir: As you are aware representatives of the United States Senate committee enquiring into munitions are at present engaged in making certain investigations regarding the transactions of Messrs. J. P. Morgan & Co. on behalf of the British Government during the war. Among other matters their enquiries have been directed towards the so-called "demand loan" which, as you will recollect, was a secured loan arranged by Messrs. J. P. Morgan & Co. on behalf of the British Government.

Messrs. J. P. Morgan & Co. have, of course, the complete detailed accounts of the transaction from its inception to its close, but to supplement this technical record they would be glad if the treasury would inform them as to the resources from which repayment of the loan was in due course effected.

Yours faithfully,

Morgan Grenfell & Co. Limited,
(Sgd.) Charles F. Whigham, *Director.*

FACTS AS TO THE DEMAND LOAN

Testimony has already been given to the committee covering the operation of the demand loan by a group of American banks under the leadership of J. P. Morgan & Co. It has been pointed out that up to April 1917 the demand loan was utilized by the British Government as an interim measure of financing in America.

ITS CHARACTER SOMETIMES MISSTATED

The nature of the demand loan has frequently been misunderstood. It was never in the nature of an "overdraft", as sometimes stated. On the contrary, it was at all times fully secured by collateral, with ample margin.

On April 6th, 1917, when America entered the war, the amount of the demand loan was approximately $345,500,000, secured by available collateral valued at roughly twice that amount. President Wilson in his message of April 2nd to Congress announced that the Federal Government should extend to the Allied Governments the most liberal financial credits, so that the resources of the United States should be added to theirs. Loans, however, from the United States Treasury to Great Britain were not immediately forthcoming, and plans for further British public financing in the United States were suspended so as not to interfere with the financial program of the Federal Government. Therefore further advances by the American banks were made under the demand loan, and by April 26, 1917, it had reached a total of $437,000,000 with collateral securities valued at more than $700,000,000. Of these upwards of $400,000,000 were American.

On the date just mentioned the British Government received from the American Treasury, the sum of approximately $200,000,000. Out of this sum $100,000,000 was applied by the British Government against principal and interest of the demand loan. The reduction in the loan was only temporary, however. Within a few days new advances were made so that, by May 5, 1917, the loan totalled

$398,500,000. The aggregate of the advances under the demand loan subsequent to April 6th totalled about $150,000,000, as compared to the $100,000,000 credit on April 26th. Between April 6th and April 26th, British expenditures in this country for supplies and exchange, had amounted to more than the $100,000,000.

METHOD OF LIQUIDATION

After May 5, 1917, the demand loan was not increased. The loan, as it then stood in the amount of about $398,500,000 or $53,000,000 more than at America's entry into the war, was completely liquidated out of the independent resources of the British Government, as follows:

From importations of gold	$33, 750, 359. 57
From sales of sterling exchange	26, 562, 114. 99
From British ships taken over by United States Government	80, 794, 041. 65
From sales of British-owned securities	134, 630, 528. 88
From payments by Russian financial attaché	598, 486. 37
From sales of British Government treasury bills	[1] 122, 210, 000. 00
Total	398, 545, 531. 46

[1] These British Government treasury bills were paid off from British sources identified as follows:

Cash from C. J. Hambro & Sons and Bank of Northern Commerce	$19, 900, 000. 00
Cash from Danish Government	5, 100, 000. 00
Cash from sales of British-owned securities	97, 210, 000. 00
	122, 210, 000. 00

UNITED STATES TREASURY DECLINED TO PAY OFF LOAN

It is already a matter of public record that the British treasury representatives who visited this country in the spring of 1917 with the British mission headed by Mr. Arthur J. Balfour requested the American Treasury to assist in taking up this loan in whole or in part by direct advances for that purpose. American Treasury authorities, however, declined to accede to this request and, as was brought out in testimony in these hearings two weeks ago, the demand loan continued to be held by the American banks (although in diminishing amount, as the British Government made payments against it) until July 1919, when it was finally paid off from British Government sources as above set forth.

STRICT COMPLIANCE WITH GOVERNMENTAL VIEWS

The attitude of our firm as to this loan was, as always, in strict compliance with the expressed wishes of our own Government. When its officials explained to us that, although they could see the advantages that might arise from reducing the holdings of American banks in this demand loan, they deemed it preferable that, for the benefit of their own pending bond operations, we should refrain from liquidation of the securities held collateral to the loan until such time as they gave us advices to proceed. This was precisely the course which we followed.

EXHIBIT No. 2796

[Telegram]

JUNE 1, 1917.

HERMAN WALDECK,
Vice President, Continental & Commercial National Bank,
Chicago, Ill.

We can probably arrange to let you have a further allotment of demand loan if you desire it. We expect this loan to be paid off in full on July first. If the matter interests you you might wire us accordingly.

J. P. MORGAN & Co.

EXHIBIT No. 2797

BRITISH EMBASSY,
Washington, May 3rd, 1917.

SIR: Adverting to my letter of the 24th ultimo with reference to the loan of $200,000,000 made by the United States Government to the British Treasury, I now have the honour to apply for a further advance of an equal amount on similar terms to cover the obligations of my Government falling due in the United States of America during the month of May.

In accordance with the suggestion made in the conference of yesterday it is proposed that the advance should be made in three parts, as follows: $50,000,000 on the 5th instant, $75,000,000 on the 15th instant and the balance of $75,000,000 on the 25th instant.

I take this opportunity of stating that the requirements of my Government for the next six months in the United States of America are estimated to amount to $1,500,000,000.

This figure may conveniently be divided into two sums. The first covers the existing open account in which the British Government are indebted to the extent of $400,000,000. A large proportion of this debt has been contracted on behalf of our Allies, both by direct advances to them and by indirect payments on their behalf made over the London exchange in New York. It is hoped that this may be regarded as a first charge on the credits to be advanced by the United States Government.

The balance of $1,100,000,000 has been arrived at after a careful scrutiny of our requirements and an effort to curtail them to the bare necessary minimum. It is based both on experience of the rate of our expenditure in the past, and on the actual present commitments of British War Departments, which now amount to $650,000,000.

I beg to emphasize that in estimating our requirements at the above figure of $1,500,000,000 it is assumed that all the expenses of our Allies in the United States of America including their expenses for exchange so far as that is required in connection with American transactions, and including existing commitments on their behalf for munitions for which we are at present responsible to the extent of $190,000,000 are disposed of by direct advances by the United States Government to those Allies individually.

I have the honour to be, sir,

Your most obedient, humble servant,

[s.] CECIL SPRING-RICE.

EXHIBIT NO. 2798

TREASURY DEPARTMENT,
ASSISTANT SECRETARY,
Washington, June 28th, 1917.

Hon. ROBERT LANSING,
Secretary of State.

DEAR MR. LANSING: Yesterday afternoon, Mr. Henry P. Davison of New York, a member of the firm of J. P. Morgan & Co., called at this office, and asked whether there could be any doubt as to an engagement which had been reported to him as having been made between Mr. Balfour and Lord Cunliffe on the one hand and the Secretary of State on the other, or other representatives of our Government, to the effect that $400,000,000 would be loaned to the British Government on the first of July. Sir Richard Crawford was present at the time this conversation took place. Both he and I stated that we knew nothing of any such engagement. Mr. Davison stated that his knowledge of it was based upon perfectly specific statements made to him personally by Lord Cunliffe and Sir Hardman Lever. It is a matter of the first importance that such a misunderstanding, as I now take it to be, should be removed. I desire therefore, even before communicating this fact to Secretary MacAdoo, to lay this statement before you, asking that you will give such weight to it as you deem fit.

In the meantime, Mr. Secretary, I beg to remain

Very sincerely yours,

OSCAR T. CROSBY,
Assistant Secretary.

("EXHIBIT NO. 2799" appears in text on p. 9018.)

EXHIBIT No. 2800

66XXX/66-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, June 29, 1917.

[Copy of cable despatched 9:00 p. m. to Morgan, Grenfell & Co., London]

47339. 38561. For E. C. Grenfell. Jack is away for over July Fourth. By reason of representations repeatedly made to us, we have all along been confident of receiving on July 2nd a payment sufficient in size to liquidate entirely no. 1 and 2. On Wednesday last, however, we were suddenly informed that this payment was in doubt and it now seems certain that we will not receive payment on July 2nd as agreed. We still hope that this is only a short postponement as we consider the matter of the utmost importance.

In regard to exchange, we have as yet been unable to learn the attitude of Washington, and we question whether they have adopted a definite policy in this matter. It would be very helpful to us if they would.—THOMAS COCHRAN.

MORGAN.

EXHIBIT No. 2801

21/16A/66-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 2, 1917.

[Copy of cable despatched 9:30 p. m. to Morgan, Grenfell & Co., London]

47404. Denkstein. Please inform the Chancellor of the Exchequer that all our plans and movements during the past two months have been predicated upon our definite understanding that number one and two would be liquidated in full on July 2nd as result of advances to the amount of $400,000,000 to be made to the British Government by the American Government and paid to us for that specific purpose.

Relying upon this understanding we have in many cases committed ourselves accordingly to financial institutions who are participants in this loan to the extent of approximately $235,000,000, there being in all about sixty such part ticipants. It is a cause of great regret that conditions here make it clear that this loan payable on demand cannot be continued longer and unless some other solution can be arranged for immediately, we feel we must proceed to sell collateral and apply proceeds toward reduction of loan. We would expect to begin such sale on Thursday morning. We would, of course, be glad to make an effort to convert this loan into such a time loan as might suit conditions of our market, providing that the Chancellor of the Exchequer desires us to make this effort and that it meets with the approval of the American Government. But in any event steps must be taken providing for the immediate payment of the loan. We are greatly distressed at the position we now necessarily take, but as we were informed and confidently expected the loan to be paid today, all the arrangements of ourselves and associates have been made accordingly and we are consequently left no alternative.

MORGAN.

EXHIBIT No. 2802

16A¹/21/66-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 3rd, 1917.

[Copy of cable received 12:50 p. m. from Morgan, Grenfell & Co., London]

38679. Denkstein. 47404 communicated to the Chancellor of the Exchequer. He expresses great surprise that it should be necessary so quickly to make provision to liquidate the call loans. He hopes that Lord Northcliffe and Sir Hardman Lever may be able to persuade the authorities, Washington, D. C., to make the repayment which you expected. He is cabling the contents 47404 to Sir Hardman Lever with request to consult Lord Northcliffe.

With regard to conversion into time loan, Chancellor states he is instructing Sir Hardman Lever that any arrangement possible on these lines may be made by Sir Hardman Lever or Lord Northcliffe, they having full authority to act for Treasury. If you have not already done so, please show 47404 and this cable to Sir Hardman Lever, as cable delays may prevent Chancellor's message reaching them as soon as this reaches you. Further cables follow.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2803

66XXX/66-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 3, 1917.

[Copy of cable received 3:04 p. m. from Morgan, Grenfell & Co., London]

38681. For J. P. Morgan. Denkstein. Please refer to my long letter of May 11th describing situation as regards Treasury. My cable 38561 was sent to you because I heard rumors there was doubt of repayment nos. 1 and 2 as promised. I think, however, you should keep me at all times fully informed of financial situation between you and Washington for following reason: We believe Sir Hardman Lever cables very fully to Treasury, but owing to attitude of party mentioned page four of my letter this gentleman carefully refrains from telling anything either to Governor or myself, so that not only the Governor and Morgan, Grenfell & Co., but also the London Exchange Committee are kept absolutely in the dark. This may seem inconceivable to you when you consider that the Governor has only just returned from occupying the position of financial member of Rt. Hon. A. J. Balfour's mission. For reasons stated, page three, Chancellor of the Exchequer, though most friendly, is unable to give adequate time to financial questions.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2804

16A/21/66-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 3, 1917.

[Copy of cable despatched 6:30 p. m. to Morgan, Grenfell & Co., London]

47445. For E. C. Greenfell. Denkstein. For our own private information, can you learn and inform us of exactly what happened between Rt. Hon. A. J. Balfour, Lord Cunliffe, and McAdoo, with reference to the arrangements to make $400,000,000 payment July 2nd.

MORGAN.

TC.

EXHIBIT No. 2805

16A/21/66-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 3rd, 1917.

[Copy of cable despatched 8:00 p. m. to Morgan, Grenfell & Co., London]

47446. 38679. For E. C. Grenfell. Denkstein. You can readily appreciate that we would do anything in our power to avoid causing the slightest embarrassment to you or the Chancellor or your Government. We fully recognize that the failure to receive the expected payment of $400,000,000 is in no way the fault of the British Government, but that does not alter the fact that, having been told more than two months ago that the payment would be made, all our arrangements since that time necessarily have been based upon that understanding. We have had to contend with serious difficulties. Owing to semi-annual settlements and large payments for Liberty Loan, our own deposits have decreased $100,000,000. Besides this, some of the out of town participants in your two demand loans have called for payment. In order to avoid requesting the British Government to pay off any part of the loans, we have met these calls ourselves and in order to do so and provide for our own decrease in deposits, we have used our own personal credit. We have also made positive commitments to participants who have been asking for repayment promising such repayment on July 2nd. We have done this relying confidently upon assurance repeatedly made to us that the loans would be fully liquidated on that date. It has been a constant struggle to meet the situations that have arisen from day to day and the strain has been beyond description. We feel confident that if the Chancellor fully understood what we have been through he would realize the necessity for the prompt liquidation of the loan. Your 38690 will give a large measure of relief, and you may rest assured that we shall earnestly co-operate in every possible way to meet the situation. In using 38690 we will bear constantly in mind 38691, and will avail ourselves of 38690 only to the extent that in our judgment is absolutely necessary.

Sir Hardman Lever has been most helpful and courageous throughout. We will take no action with regard to sales of collateral or otherwise without full consultation with him.

MORGAN.

TC.

EXHIBIT No. 2806

[The Ambassador in Great Britain (Page) to the Secretary of State]

LONDON, *June 28, 1917*.

Mr. Balfour asked me to a conference at 7 o'clock with him, the Chancellor of the Exchequer and their financial advisers. It was disclosed that financial disaster to all the European Allies is imminent unless the United States Government advances to the British enough money to pay for British purchases in the United States as they fall due.

Bonar Law reports that only half enough has been advanced for June and that the British agents in the United States now have enough money to keep exchange up for only one day more. If exchange with England fall, exchange with all European Allies also will immediately fall and there will be a general collapse. Balfour understood that in addition to our other loans and our loans to France and Italy, we would advance to England enough to pay for all purchases by the British Government made in the United States. He authorizes me to say that they are now on the brink of a precipice and unless immediate help be given, financial collapse will follow. He is sending an explanatory telegram to Spring-Rice.

I am convinced that these men are not overstating their case. Unless we come to their rescue we are all in danger of disaster. Great Britian will have to abandon the gold standard.

PAGE.

EXHIBIT No. 2807

Foreign Relations Supplement 2, 1917, pp. 535–6.
File No. 841.51/63.

(*The Ambassador in Great Britain* (*Page*) *to the Secretary of State*)

(Telegram)

LONDON, *July 5, 1917, 8 a. m.*
[Received 5:30 p. m.]

6645. Late yesterday I attended a financial conference, to which I was called, of the Prime Minister, the Chancellor of the Exchequer, the Foreign Secretary, the Governor of the Bank of England, and their advisers about the $400,000,000 overdraft which the British Government owes Morgan. They informed me that on April 6 Spring Rice telegraphed that he had received a definite promise that this sum would be paid the British Government to meet this overdraft and that it should be the first call on the Liberty Loan. They say also that on April 9 the Governor of the Bank of England received the same promise from Mr. McAdoo. On June 29 Mr. Balfour telegraphed Spring Rice reminding him that this overdraft was to be paid out of the Liberty Loan. The foregoing was made quite clear in their statement to me; then followed something less clear, namely, that they understood that since the Liberty Loan was received by our Treasury on July 1 this overdraft was to be paid July 2. I remarked that first call did not necessarily mean July 2, but it turned out that the British officials in the United States, for some reason not made very clear, expected to receive the $400,000,000 on July 2 and that Morgan then expected to receive that sum from British officials. Yesterday Morgan telegraphed his expectation and disappointment. The conference asked me to report the foregoing and to express the hope that this sum would be speedily paid. In the course of an extended conversation I reminded them of the disadvantage of failing to have all financial agreements reduced to writing and of the probable confusion caused by having so many persons taking up financial subjects with our Government. They then informed me that Northcliffe was their authorized financial agent and that he had not lately been able to see McAdoo because of McAdoo's absence. I promised to send you this telegram and I suggest that McAdoo's understanding of the matter be telegraphed me with whatever assurance he may give of the payments of this overdraft and the date when its payment may be expected.

PAGE.

EXHIBIT No. 2808

21

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, July 3rd, 1917.

[Copy of cable received 12:50 p. m. from Morgan, Grenfell & Co., London]

38682. Denkstein. 47404 communicated to Governor of Bank of England, who naturally wishes that on no account should number 1 loan continue, since Bank of England is nominal borrower.

I hope later today to be able to inform you that instructions have been given to pay same off in gold, said loan not to be re-opened for Bank of England.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2809

16A9/21/66-9

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, July 3, 1917.

[Copy of cable received 2:12 p. m. from Morgan, Grenfell & Co., London]

38690. Denkstein. Bank of England has cabled to Ottawa to place at your disposal up to £17,520,000 gold in order to definitely close the number one account.

Please therefor make no further entries in Bank of England's name except for interest to date of actual re-payment in full.—E. C. GRENFELL.

MORGAN.

("EXHIBIT No. 2810" appears in text on p. 9023.)

EXHIBIT No. 2811

16A/21

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, July 6, 1917.

[Copy of cable received 3:20 p. m. from Morgan, Grenfell & Co., London]

38786. 38690. We have received following letter dated July 6th, signed Lord Cunliffe, Governor, Bank of England:

Begins—With reference to the exchange purchased yesterday in New York City by J. P. Morgan & Co., I write to say that the amount must not be charged to the account of the Bank of England. "No. 1" "or special loan account" is to be definitely closed as soon as the existing advance has been liquidated, together with the accrued interest to date of closing, and purchases of exchange must not be charged thereto. The Treasury are being requested to instruct you as to the course to be pursued in regard to the support of the exchange—Ends.

Following is from E. C. Grenfell: Lord Cunliffe, as Governor of Bank of England, has written foregoing letter in order that you may carry out instructions conveyed in 38690. We hope to send you tomorrow instructions from London Exchange Committee as regards account to which purchases of exchange are to be charged.

MORGAN.

EXHIBIT No. 2812

66XXX/66-9/21/16a^{1}

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 5, 1917.
[Dated July 4.]

[Copy of cable received 8 a. m. from Morgan, Grenfell & Co., London]

38708. Denkstein. 47404, 47446, discussed in cabinet of four, today: In addition present, the United States Ambassador, Lord Cunliffe, Rt. Hon. A. J. Balfour, Sir Robert Chalmers, and E. C. Grenfell. Many cables referred to between Sir Hardman Lever and Treasury, which Lord Cunliffe and I had not seen. Chancellor of the Exchequer and United States Ambassador wished to know how the date of July 2nd was arrived at, and from whom you had received promise of repayment on that date. I was unable to inform them, but stated you had been repeatedly assured by some party that the loan would be liquidated punctually then.

The Ambassador is cabling to Washington tonight, and I may possibly see him again before he sends his cable.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2813

66XXX/66-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 5th, 1917.
[Dated July 4th, 1917]

[Copy of cable received 8 a. m. from Morgan, Grenfell & Co., London]

38709. Denkstein. 47445. Have seen Rt. Hon. A. J. Balfour, who is not at all clear in reference to the arrangements for repayment, as his attention was not fixed on financial matters.

Lord Cunliffe distinctly understood from McAdoo that you were to be repaid $400,000,000 or thereabouts, out of the first proceeds of the Liberty Loan. He cannot be sure that any mention was actually made of the date July 2nd. He believes Crosby was present. He pressed to have the arrangements put in writing, but he did not obtain written confirmation. He pressed Sir Hardman Lever also to get the arrangement in writing, but is not sure if Sir Hardman Lever succeeded in doing so.

This for your private information.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2814

66XXX/66-9/16a2

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 5, 1917.

[Copy of cable despatched 6:00 p. m. to Morgan, Grenfell & Co., London]

47472. Denkstein for E. C. Grenfell. 38708. Our information with reference to time of payment is derived from conversation of H. P. Davison and others with Sir Hardman Lever and Lord Cunliffe. Our recollection of those conversations is not different from Lord Cunliffe's as reported your 38709, to-wit: That payment was to be made "out of the first proceeds of the Liberty Loan." You will note that date of first payment of Liberty Loan was June 28th. Undoubtedly all of us fixed in our minds that a day or two for clearances might be required and that therefore the first business day of July, to wit July 2nd, would be the day on or before which payment would be made.

We have shown this cable to Sir Hardman Lever, who concurs that the above furnishes the real explanation of the July 2nd date, which was in his mind as well as ours.

MORGAN.

DWM.

EXHIBIT NO. 2815

6-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 5, 1917.

[Copy of cable despatched 7:45 p. m. to Morgan, Grenfell & Co., London]

47482. Denkstein for E. C. Grenfell. Returned this morning and have read cable correspondence from June 28th. Sir Hardman Lever goes to Washington tonight; will undoubtedly clear up situation in talk with Secretary of Treasury tomorrow. We will endeavor to keep you fully informed. Meanwhile there is no financial situation between us and Washington. Our financial situation is with British Government's representatives here and it is they who must adjust all questions with Washington. Am enormously impressed with courage and firmness of Lord Cunliffe as shown in your 38690, but we do not wish to avail ourselves of this unless it should be necessary. We shall be entirely satisfied to know gold is in Ottawa and available if we need it and trust that we shall not be forced to call for actual shipment which we should regret from many points of view. Should the American Government now make up its mind that it will not help in paying off this loan, we believe there are various methods which can be applied which will provide enough money and at the present time there is no pressing need for the payment here. Even if it should be necessary later to sell part of the collateral we will not sell it in a hurry nor in such a way as to get less for it than we ought to and, of course, nothing will be done except in consultation with British Treasury agents here.

Quite understand your remarks on page four of your letter of May 11th and will endeavor to keep you fully informed. Of course we are not cognizant of everything done between the British Treasury agents here and our Treasury Department, but our relations with British Treasury agents here are entirely satisfactory so far and we believe extremely close and as satisfactory to them as they are to us. Am amazed at concealment indicated in your 38681 and also in 38708 and cannot understand Chalmers taking any such line. However, since he has done so we will be guided accordingly.

Just received your letter June 18th. So thankful for your escape. Remarks on page five embody the conclusion we had already come to. In the meantime our virtues are being loudly proclaimed which at any rate is pleasant as far as it goes.

Love to all.—J. P. MORGAN.

MORGAN.

EXHIBIT NO. 2816

66XXX/66-9

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, July 6, 1917.

[Copy of cable received 4:20 p. m. from Morgan, Grenfell & Co., London]

38795. For J. P. Morgan. Denkstein. 47482 very clear and satisfactory to us, and has relieved our minds greatly.

We fully realize your situation is with British Representatives and not Washington. We are also very pleased to hear what you say about collateral and as regards the use of the Bank of England gold at Ottawa. We hope shortly to hear that the United States Government have agreed to pay off loans no. 1 and 2.

Will greatly help Lord Cunliffe and myself to be fully advised as you promised.—E. C. GRENFELL.

MORGAN.

Exhibit No. 2817

Page 539-542

F. R. 1917 S. 2—Our cuts

File No. 841.51/67

(*The Secretary of the Treasury* (*McAdoo*) *to the Secretary of State*)

Washington, *July 9, 1917.*

My dear Mr. Secretary: The President has transmitted to me the letter dated July 1, addressed to you by Colville Barclay, Esq., for the British Ambassador, making, under instructions from Mr. Balfour, various representations as to British financial requirements, and a formal request for certain specified financial assistance. I beg to request that you communicate the following reply to the British Ambassador; [1]

It is true that the Secretary of the Treasury did not know that there was danger that the ability of His Majesty's Government to effect payments in America would be in jeopardy; nor could the Secretary of the Treasury, without far more complete and detailed information than has been furnished him by the financial representatives of the British Government, have been aware of this. The Secretary of the Treasury has received the information contained in the note of the British Ambassador with the gravest concern.

As to the probable effect which would be produced on the progress of the war by a collapse in British exchange, it is not clear from the note in question that the maintenance of British exchange at any given figure is in the mind of Mr. Balfour nor that the United States can intervene in the matter except in so far as it automatically intervenes through the making of the loans that have been or may be made to the British Government to cover purchases of supplies required to be made in America.

In respect to the burden borne by the British Government for nearly three years of financing "the whole of the Allied powers", it is in the general knowledge of the Secretary of the Treasury that large sums have thus been lent to other belligerents, but specific information asked concerning this point has not yet been laid before the Secretary of the Treasury; neither in respect to the amounts lent to each of the other belligerents, nor in respect to the rates of interest paid by those belligerents, nor in respect to any other conditions which may have been attached to the making of such loans. A figure of approximately $5,000,000,000 has been stated as covering the amount loaned by the British Government during nearly three years of the war, and it may be noted that the request of the British Government alone for assistance from the United States Government is at the rate of $3,000,000,000 per annum, and that the requests from other governments added to those of the British Government would, if acceded to, carry the loans of the United States Government to far more than $5,000,000,000 in one year.

The Secretary of the Treasury regrets that Mr. Balfour left with the understanding that the United States Government would relieve the British Government definitely of the expenditures in the United States of the other Allied powers, and that it should have been confidently expected that the needs of the British Government, as communicated on May 3,[3] and the specific assistance desired for June, as indicated in the Ambassador's note of May 29,[4] would be met. It is to be regretted that general expressions of good will and a general discussion of the needs of foreign Governments, and of the possibility of the United States Government's meeting these needs, should have been construed as positive undertakings on the part of the United States to meet requirements which had not been stated in definite terms. In the conversation between the Secretary of the Treasury and Mr. Balfour, as well as with other representatives of his Government, it was made clear that the action of the Secretary of the Treasury was limited wholly by the act of Congress approved April 24, 1917, in which the Secretary of the Treasury was authorized, with the approval of the President, to make loans to governments at war with the Imperial German Government. Had the Secretary of the Treasury undertaken to meet only the specified requirements for a period of six months of the belligerent governments which have presented a schedule of the advances desired by them, he would have at once passed beyond the statutory limit of $3,000,000,000, by which he was of course wholly bound.

Communicated to the British Ambassador July 13.

In an endeavor to meet with the greatest possible promptitude the indicated urgent demands of the British Government, the Secretary of the Treasury within twenty-four hours after the approval of the above statute by the President, loaned to the British Government the sum of $200,000,000, before receiving from that Government any statement indicating its needs either for six months or for any other period. Thereafter, under date of May 3 the statement of those needs for six months was received and on May 5, while Mr. Balfour was still in the United States and subsequent to his conference with the Secretary of the Treasury, a further loan of $200,000,000 was determined by the Secretary of the Treasury, and a reply to the Ambassador's communication of May 3 was written in the following language:

> I have the honor to acknowledge receipt of your communication of May 3 relative to the making of further loans to your Government. Without dwelling on the larger matters referred to by you, which I shall be happy to consider at the earliest moment, it gives me pleasure to say that, having secured the sanction of the President in the premises, I am prepared to make a loan to your Government of $25,000,000 to day, and a further loan of $25,000,000 on Monday the 7th instant. These loans will be arranged and evidenced in a manner similar to the loan of $200,000,000 to your Government, negotiated on April 25.

And on the same date, May 5, Mr. Balfour wrote the Secretary of State expressing, on behalf of the British Government and on his own behalf, appreciation of the promptitude with which the Secretary of the Treasury had met the "immediate financial obligations" of the British Government, but making no reference to any understanding or expectation with reference to the larger matters referred to in the Ambassador's letter of July 1.

Subsequent advances in various amounts have from time to time been made to the British Government, each independently of the other, the whole aggregating at this date the sum of $685,000,000, a sum so great that the Secretary of the Treasury cannot believe that the British Government, however dissatisfied it may be with the extent of the financial assistance rendered by the United States, would have been better satisfied with any possible further direct recourse by the British Government to the American market. In connection with none of these advances has any assurance been given of the ability of the United States to meet the requirement of the British Government, outlined in the letter of May 3, for advances in the sum of $1,500,000,000 in the six months' period.

The British Ambassador refers to the bringing down of gold from Canada, the sale of securities and the withdrawal by American banks of sterling balances in London. However, much the Secretary of the Treasury may regret, as he does regret, the necessities thus laid upon the British Government, the transactions have not entered into the dealings between the two Governments, except that when the great urgency of the matter was presented to the Secretary of the Treasury he did authorize, without such a consideration as would otherwise have been proper, immediate loans to the British Government on the representation of its agents that these loans would diminish the acuteness of the crisis which had thus been presented. If from what the Ambassador says with reference to these matters, it is to be inferred that the British Government desires to look to the United States, not only for the advances indicated in the communications referred to under date of May 3 and May 29, but in addition thereto for whatever sums may be necessary to pay off maturing indebtedness of the British Government in the United States though incurred before the entrance of the United States into the war, the Secretary of the Treasury regrets that he can give no assurances in this respect.

The British Ambassador, in concluding his letter of July 1, presents a formal request for the following financial assistance:

* * * * * * *

> (3) That assistance may be given to cover the amount of our overdraft with New York bankers amounting to about $400,000,000. It was explained to the Secretary of the Treasury in April and again in my communication of May 3rd that this overdraft had been incurred mainly in order to enable our other Allies to carry on and he agreed that this sum might be included in our application and regarded as a first call on the credits under the loan.

The Secretary of the Treasury is taking the whole subject of the $400,000,000 overdraft under consideration, but no immediate determination can be made. It is true that the Secretary of the Treasury stated to Mr. Balfour that this em might be included in a statement to be laid before the Secretary of the reasury of the amounts which the British Government desired to borrow from the United States Government. Not only was this item one which would receive consideration, but, indeed, the Secretary of the Treasury stated that any items whatever which the British Government desired to be laid before him would receive due consideration. But no commitment was made by the Secretary of the Treasury concerning any item, whatever its nature, which was suggested for inclusion in the statement then being prepared by the British Government for submission to him.

Cordially yours,

W. G. McAdoo.

Exhibit No. 2818

British War Mission

Office of the Chairman, Lord Northcliffe

Hotel Gotham,
New York City, 12th July 1917,
[Pencil notation: Ans'd July 13/17]

J. P. Morgan, Esq.

My Dear Mr. Morgan: I called yesterday upon Mr. McAdoo, accompanied by Mr. C. B. Gordon.

Mr. McAdoo politely but firmly declined to discuss the matter of the loan saying that he could not do so unless he received a list of the banks participating in it.

We were unable to alter his decision.

Perhaps you will let me know what answer I shall make to Mr. McAdoo in response to his request.

Yours sincerely,

Northcliffe.

Exhibit No. 2819

July 13, 1917.

The Rt. Hon. Lord Northcliffe,
Chairman, British War Commission,
Wyndcliffe, Manchester-by-the-Sea, Mass.

My Lord: We have your letter of yesterday addressed to our Mr. J. P. Morgan.

In order to enable the British Government to answer the questions which Mr. McAdoo asks, we are prepared to give you the information, leaving you to use it as you see fit. There is always a considerable element of danger in having such large sums subject to demand, and for that reason, and in order to safeguard the interests, as we see it, both of the British Treasury and of the American money markets, the matter of this demand loan has been handled in the strictest possible confidence. No participant has ever known either the names of the other participants, or the amounts advanced by them. We have, of course, no technical right to disclose the participants in the demand loans without first obtaining the permission of each participant; to do this would, however, cause delay, which we wish to avoid, and we cannot imagine that there would be, on the part of any of the participants, any objection to your having the information, provided of course that it be not made public.

The matter stands as follows: We have loaned to the British Treasury $398,545,531.46, of which amount we have participated at the present time an aggregate amount of $233,900,000, among the various firms and institutions indicated on the accompanying confidential list. Of course, as to subparticipations which the institutions may have given out, we have no information.

The loan is secured by collateral, of which we understand the Treasury Department has already a list, having a present estimated aggregate value of more than $700,000,000.

We trust that the information herein contained will enable you to bring this matter to a satisfactory conclusion.

Should the American Treasury not wish to advance you the money to take up the whole demand loan, we would suggest that the British Government be permitted by the American Government to reestablish the balance of the loan in such a way that it shall have a definite due date. This can only be done by the issue of some security in the New York market, which, if the market would take it, would enable you to pay off the balance of the demand loan.

With the assurance that our services and any information in regard to our transactions for the British Government are always at your disposal, we beg to remain,

Yours very truly,

——— ———.

Participants in Secured British Loans

July 13th, 1917.

Boston: First National Bank	$2,000,000
Chicago:	
Continental & Commercial Tr. & Sav. Bank	2,000,000
Corn Exchange National Bank	250,000
First Trust & Savings Bank	1,000,000
Illinois Trust & Savings Bank	1,000,000
Cincinnati: First National Bank	300,000
Cleveland:	
Citizens Savings & Trust Co	1,500,000
First National Bank	500,000
New York:	
American Exchange National Bank	9,000,000
Astor Trust Company	350,000
Bank of New York, N. B. A	150,000
Bank of the Manhattan Co	1,250,000
Bankers Trust Company	9,400,000
Central Trust Company	5,200,000
Chase National Bank	12,500,000
Chatham & Phenix National Bank	300,000
Columbia Trust Company	500,000
Corn Exchange Bank	2,000,000
Empire Trust Company	300,000
Farmers Loan & Trust Company	3,000,000
Fifth Avenue Bank	300,000
First National Bank	45,000,000
Guaranty Trust Company	20,000,000
Hanover National Bank	1,500,000
Irving National Bank	1,000,000
Liberty National Bank	11,000,000
Mechanics & Metals National Bank	4,500,000
National Bank of Commerce	17,000,000
National City Bank	30,000,000
National Park Bank	1,500,000
New York Trust Company	2,200,000
Title Guarantee & Trust Co	800,000
Union Trust Company	500,000
U. S. Steel Corporation	30,000,000
Philadelphia:	
Central National Bank	200,000
Commercial Trust Company	750,000
Corn Exchange Bank	200,000
Drexel & Company	3,000,000
Farmers & Mechanics National Bank	50,000
Fidelity Trust Company	1,500,000
First National Bank	200,000
Fourth St. National Bank	600,000
Franklin National Bank	600,000
Girard National Bank	900,000
Girard Trust Company	50,000
Philadelphia National Bank	3,000,000
Philadelphia Trust Company	750,000
Tradesmens National Bank	50,000
Pittsburgh:	
Mellon National Bank	1,000,000
Peoples National Bank	250,000
Union Trust Company	2,500,000
St. Louis: St. Louis Union Bank	500,000
	233,900,000

Since this list was made up the First National Bank, New York, have been repaid $6,000,000 in no. 2 loan, and a participation of $6,000,000 given to the Continental & Commercial National Bank, Chicago.

EXHIBIT No. 2820

66XXX/66-9

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, July 13, 1917.

[Copy of cable despatched 6:30 p. m. to Morgan, Grenfell & Co., London]

47701. For E. C. Grenfell. Negotiations between Lord Northcliffe and U. S. Government proceeding. Secretary of Treasury has taken attitude he wishes to know who are the participants and to what amounts in loan. We do not ourselves see what difference this can make, but we see no reason for withholding the information and consequently are giving it to Lord Northcliffe for use as he pleases. It seems probable that when they get this information they will be bound to do something, after which we can take up question of adjustment of balance. Am going to Uncas again tonight for a fortnight, but if needed in regard to this or any other matter can always be back on short notice.—J. P. MORGAN.

MORGAN.

EXHIBIT No. 2821
[File copy]

JULY 19, 1917.

Rt. Honorable LORD NORTHCLIFFE,
New York.

YOUR LORDSHIP: In response to your request for a statement of our position with respect to the demand loans of the British Government, we submit the following:

The amounts, aggregating approximately $400,000,000, now due in the form of demand loans represent various amounts that we have paid from time to time to American manufacturers, merchants, etc., for the account of the British Government, less shipments of gold, proceeds arising from the sale of American securities and from the public sale of British Government notes, issued from time to time.

Since early in 1915, the British Government has called upon us repeatedly for temporary advances to care for its requirements, created here by the heavy and increasing trade balances running in favor of America. A summary of these temporary advances is as follows:

1. From February 1915 to October 1915 such advances aggregated $180,000,000; this amount being liquidated from the proceeds of the Anglo-French Loan issue of October 1915;
2. From May 1, 1916, to September 1916, $210,000,000; this amount being liquidated from the sale in September 1916, of $250,000,000 British Government notes;
3. From October 5, 1916, to November 1916, $188,000,000; this amount being liquidated from the sale in November 1916 of $300,000,000 British Government notes;
4. From November 1916 and thereafter $346,000,000; this amount being *partially* liquidated by the sale in February 1917 of $250,000,000 British Government notes.
5. The unliquidated balance, as mentioned, was steadily increased up to the maximum approximately $437,000,000 on April 25, 1917; this amount being reduced to the present approximate figure of $400,000,000 chiefly through gold imports.

We understand that since the entrance of the United States Government into the war, it has advanced the British Government an aggregate of $685,000,000, all of which advances, so far as our knowledge goes, have been used for the payment of current obligations of the British Government in this country for materials, supplies, and for the purchase of bills of exchange representing, in large part, foreign purchases of cotton and foodstuffs, no part having been used to reduce our demand loans. Moreover, these loans were secured by gold in transit, which gold upon its arrival might have been applied by us from time to time to the reduction of the loans, but which was also applied, with our full consent, to the payment of pressing current obligations.

The share of our firm in these demand loans at the present time is approximately $165,000,000. The balance of the loans we have obtained through our personal efforts and the co-operation of the larger institutions in New York and in a few of the other leading cities of the country. By consulting the cables you will note the great anxiety on the part of the officials of your Government that the matter should be handled most confidentially. This we have at all times met so far as it lay within our power.

We understood in May, last, from the members of the British Mission in this country that the entire demand loan would be liquidated on or about July 1st, last. Owing to the demands upon our own money market in connection with the Liberty Loan, there have been from time to time, requests from participating institutions for information as to when the loan might be expected to be paid. We have responded to such requests that we understood the loan would be liquidated on or about July 1st. The failure to carry out the plan of liquidating the loan on that date has, of course, interferred with the plans of those who were relying upon payment. There has never been the slightest question on the part of any of the participants as to the goodness of the loan. Their sole question has been as to whether it is one upon which they could rely as a quick asset, payable at any time to meet current demands.

We believe the foregoing states the situation as to the past. We respectfully make the following suggestions as to the future: We believe it highly undesirable, from the point of view of your Government as well as from the point of view of the American money market, that this loan should continue as a demand loan any longer than is absolutely necessary. We feel strongly that it should be liquidated in the very near future by one or a combination of the following measures:

1. By the issue and sale of British Government short time notes, secured by collateral. The extent to which this would be practicable, no doubt, would depend very largely upon our own Government's requirements from our money markets.

2. By the sales of the collateral to be made in as orderly a manner as circumstances permit, having in view always the desirability of obtaining the highest prices possible for your Government. You will recognize that with further issues of our own Government loans overhanging the market, it is not now practicable to sell American securities in large amounts at satisfactory prices.

3. The application to the payment of this loan of such advances as you may secure from the United States Government. This last is obviously a method which does not directly concern us and which is, perhaps, complicated by our entrance into the negotiations. It is distinctly a matter between the two Governments. As evidencing, however, our own desire to facilitate your negotiations, we have at all times expressed, and do now express, a willingness to accept for a substantial portion of our own participation in the present loan, short time obligations of the United States Treasury.

While not bearing upon the financial operation of your Government, we desire to take advantage of this opportunity to urge again that action be taken by which purchases of material for your Government may be made by or through the United States Government. You will recall that on April 3rd, we cabled the British Government, suggesting that it take up the question of obtaining supplies and making purchases through the United States Government; subsequently on May 25th, we proposed the cancellation of the contract under which we had been acting as purchasing agents of the British Government in the United States, and later, namely on July 14th, we urged the creation of a staff to take over as soon as possible, the work we have been doing in making purchases, etc. We hope that action in this direction will be taken promptly. We feel now, and have felt ever since the United States entered the war, that the business of the British Government should be transacted by its direct representatives, working in conjunction with the various departments of the United States Government in an effort to obtain the benefit of the more favorable prices and terms that that can be secured only through the exercise of governmental control; and we shall be glad to facilitate the transfer of the buying to any organization that may be formed for that purpose.

We are enclosing herewith memorandum of the securities that we are holding against the demand loans to which we have referred in detail in the earlier part of this letter.

Yours very truly,

—— ——.

Summary

American securities:	
Scheme A	$212, 110, 000
Scheme B	270, 280, 000
Treasury	26, 000, 000
Total	508, 390, 000
Securities of foreign governments and corporations:	
Scheme A	8, 575. 599
Scheme B	235, 000, 000
Total	243, 575, 599
Grand total	751, 965, 599

[NOTE.—The above valuations are based on figures and quotations which are approximate.]

American securities—Scheme A

Listed stocks	$179, 730, 000
Listed bonds	14, 040, 000
Unlisted stocks	8, 000, 000
Unlisted bonds	10, 340, 000
	$212, 110, 000

Upon the sale of securities deposited under this scheme, the Treasury is obligated to pay the owners thereof at once the sterling equivalent of the price at which such securities are sold plus 2½%.

[NOTE.—The above valuations are based on figures and quotations which are approximate.]

American securities—Scheme B

Listed stocks	$162, 100, 000
Listed bonds	50, 000, 000
Unlisted stocks	3, 180, 000
Unlisted bonds	55, 000, 000
	$270, 280, 000

Upon the sale of securities deposited under this scheme, the Treasury is obligated to account to the holders for the income during the five or three year period and at the end of such period, either return securities to the owners or to pay them the price of such security at the time of inception of scheme B, plus 5%, or the sale price, if such sale price is higher than the foregoing.

[NOTE.—The above valuations are based on figures and quotations which are approximate.]

American securities—Treasury

Listed stocks	$18, 000, 000
Listed bonds	5, 000, 000
Unlisted stocks	1, 000, 000
Unlisted bonds	2, 000, 000
	$26, 000, 000

These securities are owned by the Birtish Government.

[NOTE.—The above valuations are based on figures and quotations which are approximate.]

Securities of foreign governments and corporations

Argentine Government	$32, 729, 947
Argentine railroads	50, 155, 290
Brazilian Government	2, 366, 657
Chilian Government	32, 061, 758
Dominion of Canada	10, 193, 047
Canadian Railroads	17, 157, 757
Egyptian Government	17, 032, 900
Japanese Government	58, 525, 922

Securities of foreign governments and corporations—Continued

Chinese Government	$315, 208
Republic of Cuba	6, 158, 110
City of Tokyo	1, 741, 685
Miscellaneous Industrial Corps	15, 137, 318
Total	243, 575, 599

Of the above approximately $235,000,000 scheme B balance scheme A.

[NOTE.—The above valuations are based on figures and quotations which are approximate.]

EXHIBIT NO. 2822

16Ai/21

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, July 23, 1917.

[Copy of cable despatched 8:30 p. m. to Morgan, Grenfell & Co., London]

47952. 40134. As to your suggestion, presume authorities have overlooked that participations in no. 1 loan were made in order to overcome legal limitation difficulties with certain institutions already participating in no. 2 loan. Believe it would be very unwise to attempt, for the moment, to distrub that situation. Five institutions hold participations in no. 1 loan aggregating $27,000,000 odd. We find that $12,500,000 of this could be transferred to no. 2 loan, leaving $14,750,000 odd that must be paid and for which we have no outlet if change suggested is made.

As to tender in your 38690, Bank of England could cancel these instructions and instead ask the Government advise us that they had instructed Ottawa to hold £17,500,000 gold for our account.

As for our participation in no. 1 of nearly $58,000,000 we would be willing to transfer to no. 2, but how the $14,750,000 balance could be taken care of we are at a loss to know. Under present stress of payments, we could not assume this amount.

MORGAN.

WPH

EXHIBIT NO. 2823

16A/226ai/16ao

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, August 2d, 1917.

[Copy of cable despatched 9:30 p. m. to Morgan, Grenfell & Co., London]

49272. 47888. For E. C. Grenfell. Denkbar. In order to acquaint you fully and confidentially with situation, information furnished Lord Northcliffe as above was presumably for unofficial information of administration. We also supplied detailed information to Lord Northcliffe for transmission to our Treasury, giving participants and their amount in British demand loans. As no satisfactory solution of the matter had been made, T. W. Lamont, with the approval of Lord Northcliffe, conferred at length Monday, in Washington, with Secretary of the Treasury. He was cordial and co-operative in desires expressed, but explained that the demands of Allies upon Treasury were such that it had no funds available to turn over for prompt liquidation of present demand loan, either in whole or in part. Secretary of the Treasury stated that he had never made any commitment to take care of any particular item in British budget of requirements, and that he had told Rt. Hon. A. J. Balfour, when Mr. Balfour had presented a memorandum showing all obligations, including the $400,000,000, that Treasury would give consideration to all these items and do its very best to care for all of them, but without the slightest commitment, since he, the Secretary, had no definite idea of how much he might be able to accomplish. We think it unwise from this time on, to press this point further upon Federal Treasury. Inasmuch as it is now clear Federal Treasury is able to hold [out] to British Treasury no immediate help as to demand loan, we must consider other methods in order to place loan in a more regular position. Our first course naturally would be to reduce Treasury outstanding liability, through the careful sale of collateral, under instructions which we presume Sir Hardman Lever will hand to us. Such sales, however, must at best be slow in order to secure best prices and avoid depreciation both on account of British Government and our own Government which must soon appear again in security markets.

As a second measure, we are discussing among ourselves the possibility of making a comparatively early issue of $200,000,000 1-year British Treasury notes, secured by collateral now under demand loan and convertible like the last British issue, into 20-year bond—our idea being to try to get present banks and ourselves, who are carrying demand loan to underwrite substantial portion of this note issue, if not the whole of it, on the theory that if the notes do not sell to the public, these institutions will be little if any worse off than now, and if they do sell, they will be better off to the extent of such sales. We could hardly hope to put out such notes so that the interest cost to British Treasury would be less than 8% per annum. Even this however, we should consider preferable to present unsatisfactory and somewhat dangerous position of loan. Frankly, we have been much disappointed in the sale of $100,000,000 Dominion of Canada issue, see our no. 47895, and we may find it unfeasible to develop foregoing suggestion. In such contingency our own desire would be to handle short term Treasury bills at, say, 90 days' maturity to the extent of $150,000,000 or less, with idea that when we had once established these in market they would readily renew themselves. A 90-day maturity is in itself not satisfactory to Treasury, but at any rate to any material amount it is better to have the loan in this form than to have it all subject to demand. Further, we would hope to put these out in small amounts each day, so that there would be no one heavy maturity.

Secretary of the Treasury has given his tentative approval to our suggestion of a 1-year note issue, and today we discussed with him our suggestion of short term Treasury bills in event 1-year notes were not feasible. He has reserved his decision on this suggestion, but we shall keep in touch with him.

We are by no means certain just what we can accomplish along the various lines suggested, but it is clear we must make a move in some direction for the handling of the heavy demand loan.

Sir Hardman Lever will cable his views to Treasury, and we should be glad to receive promptly, if possible, your confirmation in general of this tentative programme.

MORGAN.

TWL.

NOTE.—Pencil notation enclosed in brackets.

EXHIBIT NO. 2824

BRITISH DEMAND LOAN

BRIEF MEMORANDUM OF CONVERSATION AT THE FEDERAL TREASURY, WASHINGTON, D. C., MONDAY, JULY 30, 1917, AT 11 A. M.

T. W. L. explained that in conference on the previous Friday (Northcliffe, E. R. S. and T. W. L. being present), the suggestion emanated that T. W. L. should visit the Treasury to discuss the whole situation direct, to offer cooperation and to see whether some solution, satisfactory to all concerned, could not be arrived at. T. W. L. explained that he had no real standing in the matter, because we were supposed to look solely to our debtor, the British Treasury, but we felt there was no use dealing with such a matter at arms' length, and thought that in conference possibly we might be able to suggest co-operation that would assist the whole money market situation.

McAdoo said he was glad I had come and he immediately sent for Assistant Secretary Crosby. The conference lasted an hour. T. W. L. explained further, in introduction, that the loan was a great discomfort to the whole situation and was likely to cause continuing uneasiness with the approach of the second large government loan operation, the banks and ourselves being exceedingly anxious to cooperate strongly in that; therefore, wishing to clear up in advance any adverse factors.

The gist of McAdoo's and Crosby's attitude, summarizing the whole interview, was as follows:

(A) The Treasury had no funds available to clear up this demand loan, in whole or in part. The demands from the Allies were so heavy that the Treasury didn't really see how it was going to get through, even with the funds on hand, up to the time when fresh legislation might be possible.

(B) Even if the Treasury had spare cash on hand, which it didn't, it would prove very awkward to turn over money for this particular purpose, because McAdoo, in appearing before the Senate and House committees originally, in connection with the legislation for the $3,000,000,000 loan to the Allies, had assured them that any part of this sum to be advanced would be for fresh purposes and not to take up existing obligations. He may have made a mistake, but that was over the dam now. He wanted to have us appreciate his viewpoint and try not to force him to undertake a step which would be awkward for him.

(C) Incidentally, he wanted to make clear that he had never made any agreement to liquidate this particular sum. Balfour had asked him whether he should include it in the total budget of British requirements. He said, yes, of course, do so, but, he said, "all I told him was that we would do our utmost to take care of all their requirements but that I had no power to make a commitment on any specific item." McAdoo felt sore that this alleged agreement had been rubbed in so hard, because it was not in accordance with the fact. Crosby supported him in this very earnestly.

(D) Time would help resolve the whole situation, and the Treasury would do all it could to relieve it, appreciating our point of view and being bound anyway to help the British Treasury all it could.

(E) Now as to practical suggestions, "Why don't you go ahead and sell out the collateral", asked the Secretary. I said that we intended to act as promptly as possible on that, but feared that we could not market more than half a million dollars of the collateral per day, perhaps not even that, without having a materially adverse effect upon the security markets, which would be bad for the new Government loan. I pointed out that even if we sold $5,000,000 a week, at that rate it would take almost two years to liquidate the loan. "Well", said the Secretary, "do the best you can anyway, make a start on it, and reduce it steadily. You will find it all helps." I committed ourselves to that policy.

(F) The Secretary then asked whether we thought we could get up a note issue. I told him that that too we had been discussing, and would do our best to work out practical suggestions, keeping in touch with him. In this connection, let me add that on the subsequent day, July 31st, I talked with Crosby on the 'phone, explained that we were considering a one-year convertible note, and were doing all we could to carry out McAdoo's and his ideas both on a note issue and on selling collateral. Crosby said that that met their hearty approval. Further, in this connection, on Thursday, August second, I talked with McAdoo over the 'phone again and explained our fear that a one year note issue might not be practical, and suggested British Treasury bills (please refer to our letter to the Secretary of this date, also our cable to Mr. Grenfell, of London, of August 2nd).

(G) There is one possible source, said the Secretary, for reducing the loan, and that is $65,000,000, which the Treasury would like to pay Great Britain, being the sum advanced by Great Britain for the building of ships here. The Secretary believed that these ought to be and would be turned over to the United States. Great Britain had originally agreed to this, but there had been some hitch, which McAdoo thought would be adjusted in the near future, now that the Shipping Board had been reorganized.

(H) Mr. McAdoo mentioned the $185,000,000 which he was committed to advance this month to Great Britain, and made the inquiry as to whether we were convinced that this was being wisely expended by Great Britain. I told him that in general we were thoroughly convinced of the fact, but that I hoped that if any question of purchasing arose in his mind, he would not hesitate to utilize freely the experience of Mr. Stettinius, who is always at his command. He said he appreciated that. It was a satisfaction to have the assurance again.

(I) In general, the attitude of both the Secretary and Assistant Secretary was most cordial, and it seemed to me co-operative. Their later conversation over the telephone seemed to me to indicate a sincere interest in the subject of the demand loan and an earnest desire to do all they could to reduce it.

EXHIBIT No. 2825

[File copy]

AUGUST 3RD, 1917.

BRITISH DEMAND LOAN OF $400, 000, 000

Hon. WILLIAM G. McADOO,
Secretary of the Treasury, Washington, D. C.

DEAR MR. SECRETARY: When I asked you yesterday over the phone your feeling as to the possibility of the British Treasury taking up a part of its present demand obligations with notes of a fixed maturity, say for ninety days (these being in the category of so-called short term Treasury bills), you said that your mind was not clear on the subject, and you were good enough to suggest that we might wish to prepare some memorandum to submit to you, enabling you to consider the whole matter at your early convenience.

As I told Mr. Crosby over the telephone the other day, we are working on both the suggestions that you made to me in Washington, namely, first, the disposition as rapidly as the market will absorb the securities without depressing it unduly, of collateral to the demand loan; the rate of such sales being hardly likely to exceed $5,000,000 a week, if indeed that. Second, the question of a one-year collateral British note issue, convertible into a longer term bond, just as the last British note issue was. As yet, however, we have not received much encouragement upon this latter plan. We managed, after all, to dispose of the $100,000,000 Dominion of Canada note issue, but, confidentially, it was a very difficult job.

Owing, therefore, to this difficulty, our minds turned, as I said over the phone, to the question of trying to substitute some ninety day notes for some part of the present demand obligations. First, then, our idea would be to limit such ninety-day notes to not to exceed $150,000,000. To be sure this is only a little over one-third of the total demand loan, but with the possible payments that may come from various sources, such as you indicated confidentially to me, the whole loan would be cut down to comparatively moderate proportions if we were able to convert even $150,000,000 of it into notes of a fixed maturity, even though of short dating, like ninety days.

The second point as to such conversion is that we should not propose to make an issue of the whole $150,000,000 at one time. We think it would be much better for the market to peddle them out just as the market would take them, perhaps $5,000,000 today, $10,000,000 tomorrow, and so on. Each day's notes would mature ninety days from that particular day, so that there would be no large amount falling due on any one date.

As we look at it, the banks who are now carrying the demand loan ought, within moderation, to be willing to take ninety day paper in place of it. Paper like this, with a fixed maturity, would gradually find a somewhat broader market, and so relieve the British Treasury.

You asked us to consider this question from the Federal Treasury's point of view, which we are, of course, bound to do. Our conclusion is that if we limit the amount of these ninety day notes to the figure that I mentioned, $150,000,000, and put them out as quietly and slowly as the manner which I described, the effect on the general money market would be favorable, rather than otherwise. You see, no fresh money would be asked for at all; it would be simply a substitution of one kind of paper for another, and the elimination of that amount of demand paper ought to prove helpful.

I am sorry to have had to give you such a long letter in order to present these views, but of course, as you yourself said, the matter is of importance and requires the best thought of all of us. My suggestion, you understand, is merely tentative. We have purposely refrained from sounding the market on an obligation of this kind, desiring, of course, first of all to secure your opinion.

I am going away for a few weeks' vacation, but Mr. Morgan will be here and he or any of our partners will be glad to confer with you any time, if you should so desire.

Very truly yours,

——— ———.

TWL-Pn.

EXHIBIT No. 2826

16A/66-9

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, August 3, 1917.

[Copy of cable received 4:39 p. m. from Morgan, Grenfell & Co., London]

40419. Have discussed 49272 with Chancellor of the Exchequer, who requested me to send message as follows:

"Have seen Chancellor of the Exchequer who is grateful to you for the friendly spirit in which you are prepared to meet this very difficult position. He has also heard from Sir Hardman Lever, and would be obliged if you would continue to consult with him as to best course to adopt. He is sanguine that if immediate difficulty can be overcome, U. S. Government will give adequate assistance."—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2827

16A 66-9

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, August 3, 1917.

[Copy of cable received 4:37 p. m. from Morgan, Grenfell & Co., London]

40420. Referring to my 40419, it appears that Sir Hardman Lever has sent long cable to Chancellor of the Exchequer giving his views on the financial situation with you, and hinting that there was possibility that certain repayments might be made to you out of the savings on the amounts allotted by McAdoo for British requirements during coming months. He also mentions that certain sums might be repaid by Russia out of the amounts coming to that country from Washington. I know nothing of these repayments being obtained in this manner, and probably Sir Hardman Lever has already discussed them with you. I merely mention them so that you may draw him upon the subject without mentioning the source of your information. The Chancellor of the Exchequer was going to discuss with his Treasury officials the idea of 90 days Treasury bills. These were previously much disliked by our Treasury at the time the Federal Reserve Board turned them down, but I do not think Rt. Hon. A. Bonar Law himself has any objection to them now.

Referring to early part of 49272, it is quite certain here that our Government understood McAdoo had agreed verbally to repay the $400,000,000, but it would be most unwise for our Government to press this point on the Federal Treasury. This evidently is also your view.—E. C. GRENFELL.

MORGAN.

EXHIBIT No. 2828

THE SECRETARY OF THE TREASURY,
Washington, August 13, 1917.

THOMAS W. LAMONT, Esq.,
c/o J. P. Morgan & Company,
New York City.

DEAR MR. LAMONT: I have given careful consideration to your letter of August 3d, in which you suggest that I advise you whether, so far as the Government is concerned, there would be objection to the conversion of a part of the so-called four hundred million dollar demand loan of the British Government, which is being carried by certain American banks and bankers, into ninety day British Treasury bills which will participate in the security of the collateral which is deposited for the four hundred million dollar loan. I see no objection to the proposed conversion.

I regret that I have been unable to answer your letter sooner.

Faithfully yours,

W. G. MCADOO.

EXHIBIT No. 2829

[Copy]

AUGUST 16, 1917.

Hon. W. G. McADOO,
Secretary of the Treasury, Washington, D. C.

DEAR MR. SECRETARY: In his absence, your letter of the 13th instant to Mr. Lamont came to me. I regret to find that, owing to some ambiguity in his letter, there has been evidently a misunderstanding in regard to the contemplated British Government Treasury bills participating in the security of the collateral which is deposited in the $400,000,000 loan. I understand, however, from Governor Strong, that this misunderstanding is cleared up and that you see no objection to issuing British Government Treasury bills up to an amount not exceeding $150,000,000 outstanding at any one time, the proceeds of these bills to be used to take up an equivalent amount of the demand loan, and that the Treasury bills will not bear on their face any reference to any special security. Their issue will not increase the amount of British Government borrowings in this country, but will place a considerable part of the present demand loan in such a position that it cannot be called and so embarrass the British Government. Furthermore, it would have the effect of releasing collateral now held in the demand loan to the extent that the Treasury bills were issued, and placing that collateral at the disposal of the British Government, thereby making their position in this market somewhat more flexible. We should expect to so arrange that the bills would not become due in any large amount at any one time, issuing them by degrees and without formal notice or public advertisement.

I should be obliged if, for regularity's sake, you would confirm to me that the suggested arrangement meets with no objection from you.

Yours very truly,

(In ink) J. P. M.

EXHIBIT No. 2830

16AO

[Copy of cable despatched 9:30 p. m. to Morgan, Grenfell & Co., London]

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, August 16, 1917.

49662. For E. C. Grenfell. Secretary of Treasury is agreeing to the idea of $150,000,000 90 day British Treasury bills to be kept afloat in this market, proceeds to be used to reduce demand loan. In order to ensure that we do not meet with sudden stop in the renewal of these bills, we propose arranging a syndicate committed to take possibly two or three weeks maturities at any time they are called upon to do so. This will obviate any necessity of reserve being kept here against these bills and we are paying the syndicate out of our own commission of one-half of one percent per annum for handling the matter.

I hope very much that the Treasury will consent to the issue of these bills on the lines that Sir Hardman Lever has cabled them, as it is in my opinion a matter of very great importance to reduce the demand loan even by the expedient of such short dated bills as these.

We expect to be able to handle the matter at the rate of not exceeding $15,000,000 in any one week and as the bills will be received by the Federal Reserve banks as security for Government deposits of Liberty Loan money, it is our opinion that they will have a large and very satisfactory market and that we shall have no difficulty in keeping afloat the $150,000,000 which is all that is contemplated, especially as we shall have the syndicate to fall back upon for a considerable time.—J. P. MORGAN.

MORGAN.

EXHIBIT No. 2831

THE SECRETARY OF THE TREASURY,
Washington, August 20, 1917.

J. P. MORGAN, Esq.,
23 Wall Street, New York, N. Y.

MY DEAR MR. MORGAN: I have your letter of the 16th instant, in reply to my letter of the 13th of August to Mr. Lamont. I see no objection to the issue of "British Government Treasury bills up to an amount not exceeding $150,000,000 outstanding at any one time, the proceeds of these bills to be used to take up an equivalent amount" of the four hundred million dollar demand loan, to which you refer.

Very truly yours,

W. G. McAdoo.

Exhibit No. 2832

August 21, 1917.

Hon. W. G. McAdoo,
Secretary of the Treasury, Washington, D. C.

My Dear Mr. Secretary: I have to thank you for your letter of yesterday, informing me that you see no objection to the putting out of British Treasury bills. We are receiving instructions from the British Treasury to proceed with the matter forthwith.

As the issue of such bills will undoubtedly raise a question in the press, I am wondering whether, should you be asked any questions on the subject, you would be willing to make a statement somewhat on the lines of the one on the attached paper, which is sent you merely by way of a suggestion. A statement on these lines from you would put to rest any question which might exist in the minds of the public after last autumn's difficulties in regard to Treasury bills, and would be a very great assistance in carrying out the transaction successfully.

Thanking you for your kindness in so promptly replying to my letter of the 16th instant.

I am, my dear Mr. Secretary,
Yours very truly,

——— ———.

The financial representative of the British Treasury now in this country has conferred with me as to the advisability of the British Government selling in this market a limited amount, not exceeding $150,000,000, of English Treasury bills maturing in 90 days, for the purpose of providing in part for existing obligations of the British Government. I have advised him that I see no objection, as such a procedure would not in my opinion conflict with the operations of the United States Treasury.

Exhibit No. 2833

J. P. Morgan & Co.
New York, August 22nd, 1917.

Dear Sir: We are forming a group (of which we ourselves will be members) for the distribution of a series of British Government 90-day treasury bills, authorized by the British Government to be issued in this country, after consultation with the Secretary of the Treasury of the United States. The proceeds of these treasury bills are to be used exclusively in reduction of the demand loan of the British Government in which you have a participation. The authorization of the British Treasury limits the amount of bills to a total of $150,000,000 outstanding at any one time, and to a total of not over $15,000,000 maturing in any one week.

We plan to sell these bills with maturities of not over $15,000,000 a week, with the expectation of continuing the operation beyond the 90-day period through sales of sufficient bills from week to week to meet maturities, keeping within the above mentioned authorization of $150,000,000. The bills will run for a period of 90 days, and the discount rate will be fixed from time to time by us, the rates to be attractive as compared with rates for high grade paper for the period.

The group which we are forming will have two functions:

One: To purchase a portion of the issue if called upon by us.

Two: To distribute the bills on a fixed basis of compensation as they are available for sale.

The group will have at no time a commitment to take up bills to an amount exceeding $30,000,000. The liability of each member of the group for his pro rata share is to be met only upon call from us. For such commitment we shall pay the members of the group a compensation at the rate ½% per annum on the amount of the commitment for the period during which such commitment remains in force and in addition a compensation at the rate of ¼% per annum on the amount of bills distributed or taken by such member for his own account. This ¼% compensation, however, will not be paid on bills taken by members under their above mentioned commitment of $30,000,000, if such commitment be required to be met. We are to receive from the British Government compensation at the rate of ½% per annum on all bills sold, out of which we will pay the compensation as outlined above to the group.

The members of the group will have the sole right of distribution and all bills must be sold, including those taken by the group, at the discount rate established by us from time to time without any allowance of reparticipation, compensation allowance or otherwise. Members of the group will be advised of changes in the discount rate, such notification to reach them on the dates upon which any such change is to become effective. All compensation and profits will be paid on the termination of the account.

We plan to begin sales of the bills in the near future. In view of the limited amount of bills available for delivery in any one week, all sales must be made subject to confirmation from this office. It is planned to sell only such an amount of these bills as can be easily absorbed by the banking community throughout the country, and in no case in excess of the above weekly limitation of $15,000,000 of maturities. We do not anticipate that the group will be called upon to fulfill the commitment of $30,000,000 in connection with initial sales, the commitment being designed to serve as a general protection for the entire operation.

The account and commitment will be kept open for a period of a year subject to termination prior to that time in our discretion.

We have reserved for you in such account an interest of $------ and shall be glad to have you advise us at once if you wish to accept it.

Yours very truly,

------ ------.

P. S.—We take the liberty of calling your attention to the ruling of the Secretary of the Treasury made in May 1917 and referred to in the enclosed letter of the Federal Reserve Bank of New York, dated May 25, 1917, approving obligations of our Allies as security for Government deposits made under authority of the act approved April 24, 1917.

EXHIBIT NO. 2834

THE SECRETARY OF THE TREASURY,
Washington, August 23, 1917.

J. P. MORGAN, Esq.,
23 Wall Street, New York, N. Y.

MY DEAR MR. MORGAN. It was not possible for me to give attention to your letter of the 21st until today. I was under the impression all along that it was not expected that any public announcement about the conversion of a part of the British loan into Treasury bills would be necessary. In fact, in your letter of the 16th, you state that "it was the purpose to issue them by degrees and without formal notice or public advertisement." I confess that I was surprised and annoyed with the statements appearing in this morning's papers about the matter, because a wholly erroneous impression was given, particularly with reference to the Federal Reserve Board. I do not know who is responsible for these statements. They made it necessary, however, for me to issue a statement about the matter, which you will see in the press by the time this reaches you and which, I hope, will set the entire matter right in the public mind.

Very truly yours,

W. G. MCADOO.

EXHIBIT NO. 2835

AUGUST 23, 1917.

Secretary McAdoo said:

Certain American banks and bankers have held for some time obligations of the British Government. The Treasury Department was asked a short time ago whether or not there would be objection on the part of the Treasury to the conversion of $150,000,000 of these obligations into short-time British Treasury bills. I stated that I saw no objection to such conversion from the standpoint of our own Government's financing.

I regret that the impression is created in certain publications that this is a reversal of the position taken by the Federal Reserve Board in respect to British Treasury bills in November last. It is neither a reversal of that position, nor is it inconsistent therewith. It is merely a conversion of a part of existing obligations into another form. The conditions now existing are quite different from those which prevailed in November last. The present transaction creates no new obligations in our markets and is designed merely to facilitate the payment of those already existing.

I may also state that the views and attitude of the Federal Reserve Board are in complete harmony with the action of the Treasury Department and that it gave me pleasure, while the matter was under consideration, to discuss it with members of the Board.

EXHIBIT NO. 2836

[Copy]

AUGUST 23RD, 1917.

Messrs. J. P. MORGAN & Co.,
23 Wall Street, New York, N. Y.

DEAR SIRS: Referring to the United Kingdom of Great Britain and Ireland Treasury bills being sold by you from time to time, the proceeds of which will be applied as payment on account of His Britannic Majesty's Government loan, I hereby direct you to charge the British Government Treasury account from time to time as sales are made with the amount of discount on bills sold, together with the commission at the rate of ½ of 1% per annum.

Yours very truly,

(Sgd.) Sir HARDMAN LEVER.

EXHIBIT NO. 2837

AUGUST 24, 1917.

Hon. W. G. MCADOO,
Secretary of the Treasury, Washington, D. C.

MY DEAR MR. SECRETARY: In reply to your letter of yesterday, I can only say that I fully shared your surprise and annoyance at the tone of the headlines and the statement in one or two of the newspapers in regard to this matter. Of course, when we found there was such a demand for the bills, it was wise to let that week's instalment go at once, and so many people were talking about it that it was necessary to give the bare facts to the newspapers, in answer to their question. We did not expect, however, to have any such publicity as came from it, and particularly we did not expect any such idea as was expressed by the papers in regard to the Federal Reserve Board. There was no statement made by anyone in this office, which justified such remarks. I think your statement is admirable, and must have cleared up any doubt that existed in the public mind. It certainly should do so.

I am, my dear Mr. Secretary,
Yours very truly,

(Signed) J. P. MORGAN.

EXHIBIT NO. 2838

AUGUST 20, 1917.

Hon. WM. G. MCADOO,
Secretary of he Treasury.

DEAR MR. SECRETARY: I return herewith Mr. Lamont's letter, which has been more fully covered by that of Mr. Morgan. It was concerning this letter that Mr. Strong asked me to speak to you, but, learning from him that Mr. Morgan was writing you to bring out the point of whether you would approve of issuing notes without collateral, I remitted the matter until that letter should arrive, knowing it would come up to you in the letter which reached you on Friday. Mr. Lamont's letter, as a matter of fact, does not mention the matter of collateral one way or another, and both he and Mr. Morgan desired to make it clear to you what was intended. In my judgment, it would be just as well for these British notes to go out without collateral. The chief departure from the program which is indicated now both in Mr. Lamont's letter and Mr. Morgan's, has to do with the maturity of the notes. My impression is that in your first conversation, you, very rightly I take it, suggested that no paper of less than twelve months maturity would help the situation much. There is doubtless something to be said on both sides. In the end, there is a certain danger in undertaking to dictate too narrowly about the terms, The corresponding responsibility may be inferred if the specific terms imposed by the Treasury are then found unworkable. My general feeling about it is that pretty large latitude should be allowed for the reason just named, and as nobody knows exactly what the market will take best. If unsecured notes can actually be scattered, even for a short priod, there is that much relief for the present situation, and it seems to me relatively unimportant, so far as the Treasury is concerned, whether the collateral is pledged or not. There would be one advantage, however, in having it free, namely, that the British Government by having free collateral would be able to meet some of the various emergencies which are constantly arising.

Looking at the matter from all sides, I am inclined to believe it is best to let them go ahead along the lines clearly indicated in Mr. Morgan's letter.

Respectfully,

(Signed) Oscar T. Crosby,
Assistant Secretary.

("Exhibit No. 2839" appears in text on p. 9030.)

Exhibit No. 2840

16A O/232

J. P. Morgan & Co.,
Cable Department,
New York, Aug. 20, 1917.

[Copy of cable received 12 noon from Morgan, Grenfell & Co., London]

40742. Following for Sir Hardman Lever from Chancellor of the Exchequer: "Your telegram 2211 of August 16th. I accept your views as to inadvisability of issue at present of British notes. I concur in proposed Treasury bills scheme, provided that as regards (3) commission is to be at the rate of one-half of one percent per annum. Your observations noted. As regards G, I understand that when bills begin to be issued arrangement whereby gold is earmarked to call loan will be rescinded. I should like this made clear. Form of bill already prepared contains correct citation of act."

Morgan.

Exhibit No. 2841

1600 61A/232

[Copy of cable despatched 2:55 p. m. to Morgan, Grenfell & Co., London]

J. P. Morgan & Co.,
Cable Department,
New York, August 20, 1917.

49765. To Chancellor of the Exchequer from Lever. 40742. J. P. Morgan accepts the arrangement that gold will cease to be earmarked to call loan, but suggests that the gold will remain in Canada as against [our] general situation in this country and will not be used for new purchases or other outside commitments.

Morgan.

Note.—Pencil notation enclosed in brackets.

Exhibit No. 2842

16001

[Copy of cable despatched 2:55 p. m. to Morgan, Grenfell & Co., London]

J. P. Morgan & Co.,
Cable Department,
New York, August 20, 1917.

49766. 40743. For E. C. Grenfell. We had no clear understanding with Lever in regard to the earmarked gold, but have never informed any of our subparticipants that this definite amount of gold was earmarked for the call loan; consequently arrangement presents no difficulty.

I am suggesting through Sir Hardman Lever that while the earmarking of this gold for the call loan is cancelled the gold should continue to be held against the general British Government situation in this country.—J. P. Morgan.

MORGAN.

EXHIBIT NO. 2843

[Copy]

66-9/66XXXA

[Copy of cable from Morgan, Grenfell & Co., London]

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
New York, October 23, 1917.

44102. Denkstein for J. P. Morgan. We note that Lord Northcliffe proposes to return here shortly, and that he does not appear to be altogether satisfied with the present conduct of affairs. We should very much like to have either a full cable or letter prior to his arrival here, so that we may know what has been going on.

Firstly. As regards finances. Have you had any further communications with Lord Reading, Lord Northcliffe, or anyone, as regards repayment of your big loan. Are you comfortable about it?

Secondly. What is the position of J. P. Morgan & Co. as regards assisting in the work of the various British Government supply organizations in United States, such as payments, cabling, transmission of copy contracts, shipping documents, etc.

It appears that many of the Government departments at both ends continue to find it more convenient to send cables through J. P. Morgan & Co. and Morgan, Grenfell & Co., but as the messages so sent are confined to more or less routine matters and do not appear to be a complete record of the cable correspondence, Morgan, Grenfell & Co, cannot intelligently follow any of the proceedings.

We want to help the best way we can, and with that end in view will welcome as full particulars as possible on the above and kindred matters before the return of Lord Northcliffe or Lord Reading, so that we may understand the situation at both ends, and also have some idea of the organization which it is necessary for us to provide in order to efficiently carry on such work as we may have to do.—E. C. GRENFELL.

MORGAN.

EXHIBIT NO. 2844

NOVEMBER 2, 1917.

DEAR TEDDY: Referring to your cable no. 44102, inasmuch as both Lord Northcliffe and Lord Reading will be over as soon as this letter. I want to put you au courant as much as possible, as you ask.

Stettinius has written Charlie Whigham about the pending questions between ourselves and the British Government in regard to the continuation of our work for them. I think there is nothing to add to what he has said, except that it would be better to have that matter officially settled and determined as soon as conveniently possible. The French have already accepted a similar suggestion made to them, and consequently I have less hesitation in urging that the British Government make the same kind of arrangement.

As regards finances, we have been wholly unable to find any drastic and thorough-going way of reducing the call loan. Both Reading and Northcliffe have done their best with our Government people, but they have not been able to make much impression. We are, however, continuing to sell very quietly and without hurting the market, and have been quite successful even in the bad times now upon us, so that the loan is very gradually—much too gradually—being reduced. The British Government now keeps with us a very satisfactory balance which it has not allowed to run down for some little time, and everyone is working with the best feeling in the matter. There are two places where the British Government may receive quite large sums: (1) From the payment for ships taken from them, which should come very soon, and (2) from the possibility of either France or Russia getting a large advance and using it to pay off some of their indebtedness to the United Kingdom, in which case the United Kingdom would pay us the amount so received in reduction of the loan.

The centre of energy is now being transferred to your side, since Crosby (who is Assistant Secretary of the Treasury) Reading, Northcliffe et al. are all going to the conference.

In regard to your "Secondly", we are assisting everywhere that we are asked in every way that we are able to be of use. We are under the same difficulty as yourselves, however, in that we do not know what and how many cables are sent outside of us, so we are equally with yourselves unable to follow the proceedings. We have had an idea that perhaps it was just as well that we should not try to follow the proceedings with a view to making suggestions, although of course we are quite ready to make suggestions when consulted.

This letter will go over to you on the same steamer with Reading and Lamont, whom you will see as soon as, or before, you get it. I think you will find Lamont very useful in giving you information in regard to the whole situation here. I am very glad to have him go. You may find that his point of view requires to be educated, because he does feel very strongly that we are being used and perhaps our good nature taken advantage of rather more than is fair. On the other hand, he realizes, as I do, that the whole war now depends upon Gt. Britain backed up by America, and that when people are struggling under a load of that kind we must not be too particular as to the sort of way in which use is made of us.

Also, I am very glad to have someone go over from here to see you all. You see, it is a year since the last time when one of the American partners was over there, and I do not like to have so long a time go by without closer intercourse than can be had by letters and telegrams.

Much love to you all—and I wish to goodness I were going to bring this letter instead of sending it.

Yours ever,

——— ———.

E. C. Grenfell, Esq.,
Messrs. Morgan, Grenfell & Co.,
London.

Exhibit No. 2845

January 19th, 1918.
[Dated January 18, 1918.]

Memorandum for A. E. N.

For your private information we have been trying to arrange with the Federal Treasury at Washington to make a beginning in liquidating the British call loan, because of the bad effect which it has always had upon the money market. We have to recognize that while it has always been amply secured with gilt-edge securities, it has not been very liquid, because we have had to be so exceedingly cautious in our sale of securities so as not to injure the market for government loans.

We have now worked out with the Treasury a plan for liquidating at the present time 40% of the loan. This plan is set forth in the appended clauses. Please, however, do not file a copy of this with any of the banks. Simply use it for your own information in talking with them. Of course all the banks here are reluctant to take on large blocks of these certificates, but they recognize the necessity for doing so in connection with this operation.

I am writing this information instead of telegraphing it, and after you have digested it, I suggest that you call up on Monday either myself, Wm. Porter, or Anderson, to ask us any questions that occur to you.

Sincerely,

——— ———.

Memorandum re U. S. Treasury certificates.

1. We wish to sell to each bank participating in the present call loan an amount of U. S. Treasury notes approximately equivalent to 60% of its present participating in the loan, on the understanding that simultaneously 40% of the participation will be paid off in cash. These certificates may be resold by a bank at any time, but not on an interest basis higher than the Treasury Department is selling certificates at any given time. We are anxious that every participant should increase the amount of this purchase over the 60% proportion mentioned, if it is possible for him to do so.

2. These are the so-called tax certificates bearing 4% interest and due June 25th next.

3. A deposit in the usual form of a book credit will be made with each bank to approximately the amount of his purchase of these certificates. There is, of course, no commitment as to the length of this deposit.

4. There is no indication that the U. S. Treasury plans to put out any certificates at an interest return higher than 4%; money seems to be working easier rather than otherwise, but of course we who propose to take a substantial amount of these ourselves and the banks must take our chances on this.

EXHIBIT No. 2846

16A : 220.

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, Jan. 19th, 1918.

[Copy of cable despatched 6:00 p. m. to Morgan, Grenfell & Co., London]

61200. Denkstein. For E. C. Grenfell. Since T. W. Lamont's return from abroad, he and A. M. Anderson have spent much time in Washington in following up with U. S. Treasury the matter of British call loan and February 1st maturities, so fully discussed in London. Federal Treasury appreciates bad effect upon American money market of having this call loan continue indefinitely, and it has therefore been frankly desirous of arranging means to effect reduction and eventual cancellation of loan.

We have now agreed to suggestion made by the Treasury under which we purchase next week $150,000,000 U. S. Treasury 4% certificates due June 25th, next, proceeds of $86,000,000 of which will be turned over to British Treasury to be applied to that extent in reduction of its call loan. In order to carry out this plan we and our associates are obliged as you can see to purchase an amount of certificates greatly in excess of amount to be applied upon the call loan. This is the consideration which the Federal Treasury receives for lending its co-operation to the plan. This proposal is, in one way, rather a hardship upon participants in the loan, and in order to keep them from any actual money loss between now and June 25th, we are telling them that in the event that the Federal Reserve bank raises its present 15-day rate so that allowing for taxes a loss would result to the banks in case they wish to borrow upon these certificates, then, and in that event, we will lend to the banks upon these certificates, either for 15 days or some other period, at a rate that will show them no loss. In such event we should, of course, expect to be reimbursed by British Treasury for any loss which we might thus incur between our rate and rate at which we could in turn borrow for a similar period, but our judgment is this is almost an academic question, for it seems to us that Federal Reserve bank is more likely to lower than to raise its discount rate on this type of security, and further, even in latter alternative, it is very unlikely that banks would ask us to make loans in question. In order, however, to put the whole deal through, in which our firm is taking a heavy participation, it is necessary for us to offer to some of the larger institutions some proposition as described. We have no doubt British Treasury will realize that in any event we will handle matter as discreetly as possible, and further, will understand the vital necessity of taking this opportunity to begin to resolve the call loan in co-operation with Federal Treasury.

Federal Treasury has been in conference with British Treasury authorities here in regard to plans to utilizing to best possible [mutual] advantage such British owned securities now held in this country, and free from pledge subject, of course, to all conditions under which securities are borrowed from owners and to any engagements British Government has undertaken. Discussion of this matter has not been within our province, but we are convinced that all Federal Treasury desires is generous co-operation on part of British Treasury in working out method for handling increasingly heavy allied finance demands here, including those which result from purchases in neutral market. You will not misunderstand us we are sure when we say we are convinced that British Treasury can well afford to be very broad in its attitude on this point. Fortunately, relations between Sir Hardman Lever and Federal Treasury are on such a basis that all such questions can be handled—we are convinced—without difficulty as they may arise.

Sir Hardman Lever is, of course, cabling the whole situation fully to Chancellor for his approval, but it is important that you should be in touch, and we would suggest that you present the gist of this meassage to the Treasury as representing our views.—T. W. LAMONT.

MORGANCO.

NOTE.—Pencil notation enclosed in brackets.

EXHIBIT No. 2847

220A 16A

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, Jan. 23, 1918.

[Copy of cable despatched 6 p. m. to Morgan, Grenfell & Co., London

61326. For E. C. Grenfell. 48630. Sir Hardman Lever has not yet heard from the Chancellor. If you have any inkling as to his attitude we should be glad to hear it. The arrangement outlined to you is not easy to arrange and we are anxious not to let the present opportunity escape.—T. W. LAMONT.

MORGANCO.

EXHIBIT No. 2848

MAY 2, 1935.

MEMORANDUM REFERRED TO IN MR. BROWN'S LETTER OF MAY 2, 1935

DEMAND LOAN #1 AND #2

On April 6, 1917, the loan stood at $345,524,483.93.

On May 16, 1917, the loan stood at $398,545,531.46, after which date no further advances were made.

As shown in the following pages:

Between April 16th and April 26th, 1917, inclusive, $104,611,029.19 was debited to the demand loans.

Between April 6th and April 26th, 1917, inclusive, $109,647,862.12 was credited to the demand loans by transfer from the British Government Treasury account, which account was credited with $200,000,000 received from the United States Government April 25, 1917.

The $398,545,531.46 outstanding on May 16th was repaid from sources identified as follows:

Gold	$33,750,359.57
Sterling exchange	26,562,114.99
Ship money	80,794,041.65
Sale of securities	134,630,528.88
Russian attaché	598,486.37
British Government Treasury bills	[1] 122,210,000.00
	398,545,531.46

[1] British Government Treasury bills were paid off from sources identified as follows:

Cash from C. J. Hambro & Sons and Bank of Northern Commerce	$19,900,000.00
Cash from Danish Government	5,100,000.00
Sale of securities	97,120,000.00
	122,210,000.00

April 6, 1917, balance $345,524,483.93.

DEBITS	
Apr. 6, 1917	$3,500,000.00
Apr. 7, 1917	3,000,000.00
Apr. 9, 1917	2,000,000.00
Apr. 10, 1917	3,500,000.00
Apr. 11, 1917	4,500,000.00
Apr. 12, 1917	7,500,000.00
Apr. 13, 1917	1,500,000.00
Apr. 14, 1917	500,000.00
Apr. 16, 1917	8,000,000.00
Apr. 17, 1917	10,500,000.00
Apr. 18, 1917	4,000,000.00
Apr. 19, 1917	2,000,000.00
Apr. 20, 1917	5,382,189.50
Apr. 21, 1917	8,526,158.25
Apr. 23, 1917	6,645,008.50
Apr. 24, 1917	13,386,859.50
Apr. 25, 1917	7,837,399.63
Apr. 26, 1917	12,509,426.01
May 2, 1917	20,219,046.88
May 3, 1917	7,789,236.87
May 4, 1917	17,674,278.38
May 5, 1917	12,625,596.25
May 15, 1917	5,002,595.75
	168,097,795.52

CREDITS	
Apr. 25, 1917	$980,962.80
Apr. 26, 1917	108,842,911.52
May 2, 1917	277.92
May 15, 1917	5,252,595.75
	115,076,747.99

EXHIBIT No. 2849

LEE, HIGGINSON & Co.,
70 Federal St., Boston, U. S. A.

ITALIAN CONTRACT

Agreement between Count V. Macchi di Cellere, Royal Italian Ambassador to the United States of America, acting in the name and on behalf of the Royal Italian Ministry of the Treasury by special authorization, and Messrs. Lee, Higginson & Company, of Boston, Massachusetts; New York City, New York; and Chicago, Illinois.

1. Lee, Higginson & Company are to offer for sale twenty-five million (25,000,000) dollars par value of notes of the Royal Italian Ministry of the Treasury. These notes are to be substantially in the form hereto annexed and marked "Exhibit A", and the Royal Italian Ministry of the Treasury agrees to execute said notes and to comply with their provisions. The text of all the definitive notes and bonds shall be printed thereon in Italian and English, but the legal intent of said instruments shall be determined by the English text thereof.

It is understood that the ten-year bonds referred to in said notes may be registered in Italy and that the Royal Italian Ministry of the Treasury shall make provision therefor.

Provision may be made for temporary notes to be issued in anticipation of the definitive notes and to be exchanged therefor. The temporary notes shall be substantially in the form hereto annexed and marked "Exhibit B", but without provision for registering the same and without coupons, the interest to be payable upon presentation of the notes at either one of the principal offices of Lee, Higginson & Company mentioned therein.

Both the definitive notes and temporary notes shall be signed for the Royal Italian Ministry of the Treasury by said Royal Ambassador, or in the event of his absence, by the Charge d'Affaires or such other official as may be designated by the Royal Italian Ministry of the Treasury, they shall bear the seal of the Royal Italian Embassy at Washington, and shall be countersigned by Lee, Higginson & Company.

2. None of the twelve million five hundred thousand (12,500,000) dollars of said notes which are not underwritten shall be sold ao as to yield the Royal Italian Government a smaller amount than par and accrued interest, less the commission of one and one-half (1½) percent specified herein, nor shall they be sold to the public at less than par and accrued interest unless a lower price is approved by the Ministry of the Treasury.

All expenses in connection with the printing, engraving or lithographing and execution of any of the notes contemplated, including the certification and registration thereof, and all expenses incidental to their preparation, shall be paid by the Royal Italian Ministry of the Treasury which shall also pay the expenses incidental to the transfer of funds to any of the offices of Lee, Higginson & Company for the purpose of meeting the interest or principal of said notes and all cost and expense incidental to the preparation for or exercise of the conversion privileges.

It is estimated that these expenses to be paid by the Royal Italian Ministry of the Treasury will be approximately ten thousand (10,000) dollars. But the Royal Italian Government shall, if so requested by Lee, Higginson & Company, furnish and deliver to Lee, Higginson & Company, free of expense to them, the 1-year notes of the second series and the 10-year bonds referred to in Exhibit A, sufficient in number and denominations to meet the requirements of conversion and sale as provided in said notes. The text of said notes and bonds shall conform to the provisions referred to in Exhibit A, and the mechanical execution of said notes and bonds shall conform to the standard bonds issues of the Royal Italian Government. It is understood that these options, if exercised by Lee, Higginson & Company, shall be so exercised by written notice to the Royal Italian Embassy at Washington on or before April 15, 1916, as to the second series of one-year notes, and on or before April 15, 1917, as to the ten-year bonds. Lee, Higginson & Company shall bear all expenses in connection with the advertising and sale of said notes.

After the time limit for the exercise of any conversion privilege has expired, said Lee, Higginson & Company shall within seven days thereafter notify the Royal Italian Embassy at Washington of the number and denominations of the new notes, or bonds, as the case may be, to be issued in exchange for the old notes.

A preliminary certificate that the notes have been authorized and have been or will be executed in accordance with Italian law so as to constitute a valid obligation of the Royal Italian Ministry of the Treasury, will be furnished by said Royal Ambassador and a further certificate to the same effect from the proper official in Rome of the Royal Italian Government will be duly furnished as soon thereafter as it can be obtained.

3. The compensation of said Lee, Higginson & Company for their services in this connection shall be a commission of one and one-half (1½) percent upon the par value of all the first series of one-year notes sold; and an additional commission of one-half (½) of one (1) percent upon the par value of so many of the second series of one-year notes as may be taken in exchange by the holders of the first series one-year notes; and an additional commission of one and one-half (1½) percent upon the par value of so many of the ten-year bonds as may be taken in exchange by the holders of the second series one-year notes; with the same rates of commission as above stated, viz, one-half (½) percent and one and one-half (1½) percent, respectively, upon par value, for the sale of such of the second series of one-year notes and such of the ten-year bonds as may not be taken in exchange by the holders of prior notes; said Lee, Higginson & Company being hereby given the exclusive right at their option to offer for sale such of the second series of one-year notes and of the ten-year bonds as are not so taken. This exclusive right shall continue for the period of thirty (30) days after the date of maturity of the first series of one-year notes and for the same period after the date of maturity of the second series of one-year notes.

4. The Royal Italian Ministry of the Treasury agrees that it will use the proceeds of the first series of notes hereby contemplated in payment for purchases (heretofore made or hereafter to be made) of merchandise and commodities of every kind in markets of the United States, and, pending the application of the said funds, such proceeds, less commissions and expenses, shall be credited on the books of Lee, Higginson & Company to the credit of said Royal Ambassador for the account of the Royal Italian Government and the interest allowed thereon at the rate of two (2) per cent per annum. When and as needed by the Royal Italian Government for the purchase of or payment for merchandise and commodities as above, Lee, Higginson & Company shall, to the extent of the funds on deposit with them as aforesaid, make transfers therefrom to such bank, trust company, or other depository in the United States as may be designated by said Royal Ambassador. Such transfers shall be made by them when and as instructed in writing so to do by said Royal Ambassador or by such person as he may designate in writing.

5. The provisions of this agreement shall be applicable to said firm of Lee, Higginson & Company as the same may now or hereafter be constituted; and said firm agrees to use its best efforts to accomplish the sale of said notes upon the conditions stated, and daily to advise said Royal Ambassador, or such other person as may be designated by him in writing, of the amounts of the proceeds of said notes, less commissions and expenses as aforesaid, placed to his credit for the account of the Royal Italian Government as above. Information concerning the proceeds of the sale of the second series of one-year notes and of the sale of the ten-year bonds shall be given to said Royal Ambassador in the same manner.

6. It is understood that the sale of twelve million five hundred thousand (12,500,000) dollars of said notes is to be underwritten to net ninety-eight and one-half (98½) per cent thereof, i. e. par less the above mentioned commission of one and one-half (1½) per cent, to the Royal Italian Government by Lee, Higginson & Company, or by a syndicate to be formed by them, of which syndicate said firm may be members and managers.

The public offering of said notes shall be made on October 15th, 1915, with the proviso that Lee, Higginson & Company, acting solely in the interest of the success of the loan, may, if financial conditions in the American market make it wise or necessary, anticipate or postpone this date by a period not to exceed ten (10) days prior or subsequent thereto. But the twelve million five hundred thousand (12,500,000) dollars in notes underwritten as aforesaid will be taken up on said October 15th in any event and the proceeds thereof then placed to the credit of the Royal Italian Government as above.

The offering of said notes, unless they are sold earlier, shall continue for sixty (60) days from October 15, 1915, and thereafter until terminated by ten (10) days' written notice from said Royal Ambassador to Lee, Higginson & Company, or from Lee, Higginson & Company to said Royal Ambassador. All notices hereunder shall be given in writing and mailed either to Lee, Higginson & Company

43 Exchange Place, New York City, or to the Royal Italian Embassy at Washington, D. C.

It is understood that Lee, Higginson & Company if they so desire may associate with themselves in this undertaking other banking firms or banks or trust companies on such terms as they may approve.

It is further understood and agreed that this contract supersedes all that has heretofore transpired and constitutes the entire agreement between the parties.

In witness whereof said Count V. Macchi di Cellere, Royal Italian Ambassador at Washington, acting on behalf of the Royal Italian Ministry of the Treasury under special authorization as above, has hereunto signed his name and caused the seal of the Royal Italian Embassy at Washington to be affixed, and said Lee, Higginson & Company, by F. L. Higginson, Jr., a partner, has hereunto signed its firm name and affixed its seal this ninth day of October, 1915.

[SEAL, ROYAL ITALIAN EMBASSY]

(Sg.) MACCHI DI CELLERE,
Royal Italian Ambassador.
(Sd.) LEE, HIGGINSON & CO.

EXHIBIT "A"

No. ------ $------

KINGDOM OF ITALY—ROYAL MINISTRY OF THE TREASURY ONE-YEAR CONVERTIBLE SIX PER CENT SPECIAL TREASURY GOLD NOTE

For value received, The Royal Ministry of the Treasury promises to pay the bearer hereof, or, in case of registration, to the registered holder hereof ——— dollars (denominations to be $1,000, $500, and $100) in gold coin of the United States of America of the present standard of weight and fineness one (1) year from date, viz: on October 15th, 1916, and to pay interest thereon, from the date hereof in like gold coin until the principal of this note is paid, at the rate of six (6) per cent per annum, semiannually, on the fifteenth days of April and October. Such interest will be paid only upon the presentation and surrender of the annexed interest coupons as they severally become due and payable.

Both the principal and interest of this note are payable at the option of the holder at either of the offices of Lee, Higginson & Company (as the said firm may be now or hereafter constituted) in Boston, Massachusetts, or in the Borough of Manhattan in the City of New York, State of New York, or in Chicago, Illinois, all in the United States of America, and shall be paid and the promises herein contained kept, as well in time of war as in peace, without deduction for any taxes or impositions now or hereafter to be established or levied by or within the Kingdom of Italy in connection with or against the holder hereof, or in connection with or against this note or the principal or income or conversion privilege thereof, and irrespective of the nationality of the holder.

This note is one of an authorized issue of six per cent special treasury gold notes of the Royal Ministry of the Treasury, aggregating twenty-five million (25,000,000) dollars in principal amount, and all of like tenor and date, and all issued or to be issued pursuant to and in conformity with law.

The holder shall have the right to convert this note into another convertible note of the said Royal Ministry of the Treasury of the same principal amount, bearing interest at the rate of six (6) per cent per annum, payable semiannually, dated October 15th, 1916, and maturing one (1) year from its date, and otherwise of the same form and tenor except as herein specifically provided, by surrendering this note at one of the said offices of Lee, Higginson & Company on or after October 15th, 1916, and receiving in exchange therefor the new note.

The conversion privilege may be exercised only if this note be first presented at either of said offices of Lee, Higginson & Company not earlier than ninety (90) days and not later than sixty (60) days before its maturity, for the purpose of being stamped with the following notice:

"The holder of this note has irrevocably exercised the conversion privilege therein granted, and is entitled to receive in cash only the interest due or to become due thereon, and a new note for the same principal amount as therein provided."

The actual exchange of this note for the new note shall be made only at the office where it is so stamped.

The convertible provision of such one-year note of the second series given in exchange as above shall read substantially as follows:

"The holder shall have the right to convert this note into a bond of the said Royal Ministry of the Treasury of the same principal amount, bearing interest at the rate of five and one-half (5½) per cent per annum, payable semiannually, dated October 15th, 1917, and maturing ten (10) years from its date, and otherwise of the same form and tenor except as herein specifically provided, but containing no conversion privilege, by surrendering this note at one of said offices of Lee, Higginson & Company on or after October 15th, 1917, and receiving in exchange therefor the new bond. This conversion privilege may be exercised only if this note be first presented at either of said offices of Lee, Higginson & Company not earlier than ninety (90) days and not later than sixty (60) days before its maturity for the purpose of being stamped with the following notice: 'The holder of this note has irrevocably exercised the conversion privilege therein granted and is entitled to receive in cash only the interest due or to become due thereon and a new ten-year bond for the same principal amount as therein provided.'

"The actual exchange of this note for the new ten-year bond shall be made only at the office where it is so stamped. The said ten-year bond shall be payable, principal and interest, in gold coin of the United States of America of the present standard of weight and fineness at either of the said offices of Lee, Higginson & Company, or, at the option of any holder, at such branches of the Royal Treasury as the Royal Ministry of the Treasury may indicate, in gold coin of the Kingdom of Italy of the present standard of weight and fineness at the fixed rate of exchange of 5.18¼ lire of Italian money for each dollar."

At least ten (10) days before any instalment of interest on the notes of this issue shall become due, the Royal Ministry of the Treasury shall deposit with said Lee, Higginson & Company a sufficient sum to pay the same in full and, within ten (10) days before the maturity of the said notes, shall deposit a sum sufficient to pay at such maturity the principal and interest of all of said notes which have not been presented for conversion as above provided.

The Royal Ministry of the Treasury shall in due course deposit with Lee, Higginson & Company the new notes or bonds requisite for exchange as herein provided, and shall also, at the option of any holder of the second series of 1-year notes, make provision for the issue of the 10-year bonds in exchange therefor in denominations of ten thousand (10,000) dollars and fifty thousand (50,000) dollars, and registered as to principal and interest, or coupon in form registered as to principal, or coupon in form unregistered, but otherwise of the same tenor.

This note shall pass by delivery unless registered on the books of the Guaranty Trust Company of New York, registrar, such registration being noted hereon. After such registration no transfer hereof shall be valid unless made on said books by the registered owner in person or by his duly authorized attorney and similarly noted hereon; but the same may be discharged from registration by being in like manner transferred to bearer, and thereupon transferability by delivery shall be restored, but this note may again from time to time be registered or transferred to bearer as before. Such registration shall not, however, affect the negotiability of the coupons, which shall continue to be transferable by delivery merely. This note shall not be valid until the same shall have been duly authenticated by counter-signature of Lee, Higginson & Company, and the certification form hereon signed by the Guaranty Trust Company of New York, registrar.

The legal intent of this note shall be determined by the English text hereof.

The Royal Ministry of the Treasury certifies and declares that this note has been issued in due and strict compliance with the constitution and laws of the Kingdom of Italy.

In witness whereof the Royal Ministry of the Treasury has caused this note to be signed by its duly authorized representative, the Royal Italian Ambassador to the United States of America, the seal of the Royal Italian Embassy at Washington has been affixed hereto and this instrument countersigned by Lee, Higginson & Company, this fifteenth day of October, 1915.

(Signed) MACCHI DI CELLERE,
Royal Italian Ambassador to the United States of America.

[SEAL]

Countersigned by LEE, HIGGINSON & CO.

[Coupon]

(Denomination $30, $15, $3)

On the------day of----------191--, the Royal Italian Ministry of the Treasury will pay to the bearer, at either of the offices of Lee, Higginson & Company in Boston, Massachusetts, New York City, New York, or Chicago, Illinois, United States of America, ---------------------dollars in gold coin of the United States of America, being six (6) months' interest then due on six per cent gold note dated---------------------19--,

No--------

No--------

(The coupon to bear the engraved or lithographed signature of said royal ambassador in form similar to that upon the note)

[Coupon]

(On back)

No. ------

KINGDOM OF ITALY—ROYAL MINISTRY OF THE TREASURY SIX PERCENT CONVERTIBLE GOLD NOTE

$----

Principal payable--

Interest payable April 15th, ------ and October 15th ------.

Principal and interest payable at the offices of Lee, Higginson & Company, Boston, Massachusetts, New York City, New York, Chicago, Illinois, United States of America.

[Certification form]

Registered:

-------------------- Trust Company of --------------------------

Registrar.

By --------------------

EXHIBIT No. 2850

LEE, HIGGINSON & CO.,
70 Federal St., Boston, U. S. A., September 3, 1915.

ITALIAN LOAN

To the ITALIAN AMBASSADOR,
Beverly Farms, Mass.

YOUR EXCELLENCY: Referring to Mr. Higginson's conference with you last week, and our talk on Friday last and today with Mr. Ceccato, with whom you asked us to confer, we beg to say that it would give our firm much pleasure to bring out a loan in this country on behalf of your Government.

We have given this subject considerable thought, with special reference to the fact that our financial institutions and individuals have not been accustomed to investments in the securities of other countries, and also with a view to meeting in the best possible way the precise financial conditions which characterize the present moment in this country.

We suggest a one-year note carrying interest at 6%, to be sold probably at par, certainly not less than 99¾; to be free from all tax by your government; interest to be payable at six months and one year; principal and interest to be payable in this country.

Such a note by itself in these times, and in view of the lack of experience in this country in foreign investments, would not in our judgment be salable to a substantial amount; but it seems to us that it can be given a conversion privilege which would bring about a successful issue.

We suggest accordingly that the one-year note should give the purchasers the alternative of receiving payment or converting into a precisely similar second note, also running for one year, at the same rate of interest, this second note at its maturity to give the holder the option of payment or conversion into a ten-year security carrying interest at 5½%, interest and principal of this last security to be payable in this country and Italy.

In our opinion it would be wise, under present conditions, to make this first public issue $25,000,000. We hope that the issue would be so well received that if your government desired subsequent issues these could be placed also.

In the case of a recent Government loan, where we acted as fiscal agents for the Government, we performed our services for a commission based on the securities sold. We prefer this arrangement, because we think that it makes success more certain for various reasons, some of which we have outlined to Mr. Ceccato. If however, your Government would prefer to have a part of the loan underwritten—say half—we would be glad to arrange this.

If the loan is to be one-half underwritten, we should expect as compensation a commission of 1½% based upon the first year notes sold, a commission of ½% upon the second year notes taken by the holders of the first year notes, and a commission of 1½% upon the ten-year notes taken by the holders of the second year notes, with the same rate of commission for the sale of such of the two subsequent maturities as were not taken in exchange by the holders of the existing securities and might be sold by us.

The above commissions would cover the total cost except certain minor expenses such as printing, engraving, certification, counsel fees, etc., in regard to which we can give your excellency a close estimate.

We think it can probably be arranged that the noteholders should declare their option as to payment or conversion 30 days before the maturity of the notes.

We are ready to act promptly if your excellency should desire us to do so, and to settle immediately the minor details, in regard to which we think there is not likely to arise any basis for difference of opinion.

Very truly yours,

(Signed) LEE, HIGGINSON & Co.

EXHIBIT No. 2851

[Letterhead of Regia Ambasciata D'Italia]

BEVERLY FARMS, MASS., *Sept. 14, 1915.*

Messrs. LEE, HIGGINSON & Co.,
44 State Street, Boston, Mass.

GENTLEMEN: I have communicated to my Government the suggestions made by you regarding the placing of a loan in this country, and I have been advised by it that it approves the plan as outlined in your letter of September 3rd and in the conferences we had, and authorizes you to act as its fiscal agent to take such steps as are necessary to carry through the transaction along the lines as outlined in your letter and conferences above mentioned: And also to act as its fiscal agent in regard to the payment of the principal and interest on the notes and to hold on deposit, for the account of the Italian Government, the proceeds of such notes and disburse the same as may be arranged.

We can arrange the details of the formal agreement at our mutual convenience.

Believe me, gentlemen,

Yours very truly,

(Signed) V. MACCHI DI CELLERE,
Royal Italian Ambassador.

EXHIBIT No. 2852

OCTOBER 15, 1915.

To the ROYAL ITALIAN AMBASSADOR,
Beverly Farms, Mass.

YOUR EXCELLENCY: We beg to advise you that we have today placed to your credit in our books $12,312,500.00 being the proceeds of $12,500,000.00 one-year 6% notes of the Italian Ministry of the Treasury at 98½%.

In accordance with our agreement, this deposit will carry interest at the rate of 2% per annum.

Very truly yours,

(Signed) LEE, HIGGINSON & Co.

FLH-C.

EXHIBIT No. 2853

[Copy]

[Letterhead of Lee, Higginson & Co.]

ITALIAN TRADING ACCOUNT

NEW YORK, *December 16, 1915.*

Messrs. LEE, HIGGINSON & Co.,
Boston, Mass.

(Attention Mr. Sever.)

DEAR SIRS: We have to-day made a trading account with the Guaranty Trust Company in Italian Government 6's, 1916. The arrangement is as follows:

We are to buy a total of not over $300,000 without further consultation, the bid price at the present time to be 99½ and interest, and the offering price 100 less ¼ to dealers. In order to simplify the bookkeeping each purchase and sale is to be divided at once so that each party to the account is always carrying the proper proportion, and has the proper amount of profit and loss.

For instance, if the Guaranty Trust buys $20,000 at 99½, we put through our books here a purchase of $10,000 from the Guaranty at 99½ and similarly in the case of sales. We are inclined to think that this is the easiest way to run an account of this sort.

The Guaranty Trust Company has bought $20,000 of these notes today which we take over into the account and our trading desk has been instructed to enter the purchase of $10,000 at 99½ from the Guaranty Trust. You will receive a report of that in the regular course of business.

Yours very truly,

(Signed) Lee, Higginson & Co.,
D. Durant.

Exhibit No. 2854

Lee, Higginson & Co.,
70 Federal St., Boston, U. S. A.

Italian underwriting

Participants	Underwriting	Withdrawn 1st $12,500,000	Withdrawn 2d $12,500,000	Profit	Bonds sold
NEW ENGLAND					
Blodget & Co., Boston	$10,000			$122.49	$29,000
Gaspare di Cola, Boston	10,000			122.49	105,200
Cooley, F. R., Hartford, Ct	5,000			61.24	
First Nat. Bank, Boston	500,000	$500,000		8,624.35	7,500
Fiske & Co., Redington, Boston	5,000			61.24	30,000
Hincks Bros. & Co., Bridgeport, Ct	5,000			61.24	5,000
Jackson & Curtis, Boston	15,000			183.75	118,600
Lee, Higginson & Co., Boston	2,007,000	1,000,000	$851,000	33,838.14	
Leverone, Frank, Boston	10,000			122.49	10,000
Merchants Nat. Bank, Boston	500,000	500,000		8,624.35	6,200
Moseley, F. S., & Co., Boston	200,000			2,449.74	237,000
Natl. Shawmut Bank, Boston	250,000	250,000		4,312.18	
Old Colony Trust Co., Boston	500,000	500,000	250,000	9,874.35	7,000
Raymond & Co., W. L., Boston	10,000			122.49	10,000
State Street Trust Co., Boston	25,000		25,000	431.22	55,100
Dodge, F. O., Fall River, Mass	5,000			61.24	11,000
	4,057,000	2,750,000	1,126,000	69,072.98	
CHICAGO					
Central Tr. Co. of Ill., Chicago, Ill	100,000	100,000		1,724.87	
C. F. Childs & Co., Chicago, Ill	50,000			612.43	
Francis J. Johnson, Chicago, Ill	5,000	5,000		86.24	
First Nat. Bank, Cleveland, O	100,000	50,000		1,474.87	
First Nat. Bank, St. Paul, Minn	50,000			612.43	
White, Grubbs & Co	50,000			612.43	
J. C. Willson & Co., Louisville, Ky	50,000			612.43	
Fletcher-American National Bank, Indianapolis	50,000	50,000		862.43	
Hall & Lewis, Portland, Ore	25,000			306.22	
Watson, Williams & Co., New Orleans, La	10,000			122.49	
A. E. Aub & Co., Cincinnati, O	10,000			122.49	
Illinois Tr. & Sav. Bk., Chicago, Ill	100,000		100,000	1,724.87	
Francis Bros. & Co., St. Louis, Mo	5,000			61.24	
	605,000	205,000	100,000	78,008.42	
NEW YORK					
Guaranty Trust Co., New York City	2,000,000	1,000,000	1,000,000	[1] 34,497.40	
Chase National Bank, New York City	1,000,000	500,000	500,000	17,248.70	
Mechanics & Metals N/B, New York City	500,000	500,000	500,000	11,124.35	
Brown Bros. & Co., New York City	250,000			3,062.18	
Kean, Taylor & Co., New York City	250,000			3,062.18	
Potter, Choate & Prentice, New York City	250,000			3,062.18	
Farmers Loan & Trust Co., New York City	500,000	500,000	500,000	11,124.35	
P. A. Rockefeller, New York City	500,000		500,000	8,624.35	
J. P. Morgan & Co., New York City	1,000,000		1,000,000	17,248.70	

[1] Plus $31,250.

Italian underwriting—Continued

Participants	Under-writing	Withdrawn 1st $12,500,000	Withdrawn 2d $12,500,000	Profit	Bonds sold
NEW YORK—continued					
National City Bank, New York City	$500,000	$500,000	$1,500,000	[1]$16,124.35	--------
J. & W. Seligman & Co., New York City	100,000	100,000	--------	1,724.87	--------
Bankers Trust Co., New York City	250,000	250,000	250,000	5,562.18	--------
Kissel, Kinnicutt & Co., New York City	250,000	--------	--------	3,062.18	--------
Union Trust Co., Pittsburgh, Pa	100,000	--------	--------	1,224.87	--------
New York State N/B., Albany, N. Y	5,000	--------	--------	61.24	--------
Lyon Singer & Co	50,000	--------	--------	612.43	--------
Graham & Co	50,000	--------	--------	612.43	--------
Reilly, Brock & Co	50,000	--------	--------	612.43	--------
Cassatt & Co	50,000	--------	--------	612.43	--------
Millett, Roe & Hagan	5,000	--------	--------	61.24	--------
Mann, Bill & Co	5,000	--------	--------	61.24	--------
J. S. Wilson Jr. & Co	10,000	--------	--------	122.49	--------
Union Trust Co., Albany, N. Y	5,000	--------	--------	61.24	--------
Lazard Freres	10,000	--------	--------	122.49	--------
Charles Stone	5,000	--------	--------	61.24	--------
Vietor & Hubbell	1,000	--------	--------	12.25	--------
Wycoff Hoxie	1,000	--------	--------	12.25	--------
S. J. McKean	1,000	--------	--------	12.25	--------
Leonallo Perera & Co	20,000	--------	--------	244.97	--------
W. L. Chittenden	1,000	--------	--------	12.25	--------
J. F. Nields	1,000	--------	--------	12.25	--------
Charles E. Andrews	5,000	--------	--------	61.24	--------
Brooks & Co	1,000	--------	--------	12.25	--------
P. R. Bevan	5,000	--------	--------	61.24	--------
W. J. Hunsinger & Co	1,000	--------	--------	12.25	--------
Hackett & Chidsey	1,000	--------	--------	12.25	--------
R. H. Wicks & Son	5,000	--------	--------	61.24	--------
Hibbard, Kolbfleisch & Palmer	5,000	--------	--------	61.24	--------
Sage, Walcott & Steele	5,000	--------	--------	61.24	--------
Markoe & Morgan	1,000	--------	--------	12.25	--------
Coggeshall & Hicks	1,000	--------	--------	12.25	--------
Central Trust Co., New York City	50,000	--------	--------	612.43	--------
National Commercial Bank, Albany, N. Y	5,000	5,000	--------	86.24	--------
Columbia Trust Co	10,000	--------	--------	122.49	--------
Gillespie, Livingston & Co	1,000	--------	--------	12.25	--------
Broadway Trust Co	5,000	--------	--------	61.24	--------
E. & C. Randolph & Co	1,000	--------	--------	12.25	--------
Trust & Deposit Co. of Onondaga	1,000	--------	--------	12.25	--------
W. Morris Imbrie & Co	1,000	--------	--------	12.25	--------
Irving National Bank	5,000	--------	--------	61.24	--------
Gray & Wilmerding	1,000	--------	--------	12.25	--------
Converse, Hough & Co	1,000	--------	--------	12.25	--------
C. M. Keys	1,000	--------	--------	12.25	--------
Title Guaranty & Trust Co	5,000	--------	--------	61.24	--------
J. A. McKeough	1,000	--------	--------	12.25	--------
Total	7,838,000	3,355,000	5,750,000	1,470.33	--------

[1] Plus $3,624.35.

EXHIBIT No. 2855

LEE, HIGGINSON & CO.,
70 Federal St., Boston, U. S. A.

ITALIAN GOVERNMENT 6% GOLD NOTES DATED OCT. 15TH, 1915, DUE OCT. 15, 1916

"ITALIAN 6% SYNDICATE"

Oct. 1915. Lee Higginson & Co. and Guaranty Trust Co. N. Y., bought for syndicate account at 98½, $12,500,000; and have an option to sell for a commission of 1½% an additional $12,500,000.

Syndicate members have same pro rata interest in second $12,500,000 notes for a commission of 1%.

Guaranty Trust Co. N. Y. paid $31,250, ¼% on last $12,500,000 notes, W. C. Simons underwriting $50,000. Profit, $612.45 paid Jan. 8, 1916.

Jan. 7, 1916. Credited Higginson & Co. $\frac{9}{16}$ of $\frac{19700}{25078000}$ of $51,331.68=$22.68.

Jan. 8, 1916. Credited profit & loss firm Jan. 1, 1915, $50,712.90.

Division of profit

	Sales in synd.	Sales trading acc.	Gross	Charges	Net
Springfield	227,000	2,300	1,730.52	1,153.75	576.77
Boston	3,089,000	32,200	23,555.69	7,738.62	15,817.07
Chicago	1,282,100	109,700	10,503.91	3,684.25	6,819.66
New York	6,672,500	123,900	51,292.52	26,860.36	24,432.16
Portland	247,600	7,400	1,924.48	329.25	1,595.23
Worcester	254,100	1,000	1,925.24	470.87	1,454.37
Head office					17.64
	11,772,300	276,500	90,932.36	40,237.10	50,712.90

"Italian 6% syndicate"

		Purchases	
		Bonds	Price
1915:			
Oct. 15.	Of the Royal Italian Ministry of the Treasury	12,500,000	[1] 98½
Oct. 26.	Gaspari di Cola	25,000	100
28.	Royal Italian Ministry of the Treasury	2,000,000	98½
29.	do	1,500,000	98½
Nov. 1.	do	1,500,000	98½
3.	do	500,000	98½
4.	do	500,000	98½
8.	do	500,000	98½
9.	do	500,000	98½
11.	do	1,000,000	98½
24.	do	500,000	98½
29.	do	500,000	98½
	Bot. of Wm. C. Strong, Natick, Mass	1,000	99½
30.	Royal Italian Ministry of the Treasury	1,000,000	98½
	do	1,000,000	98½
	do	1,000,000	98½
Dec. 7.	do	500,000	98½
13.	N. Y. office a/c Randolph	50,000	99½
14.	" a/c Mann, 772	1,000	[2] 99¾
16.	H. S. Libby	1,000	99½
		25,078,000	

[1] And interest.
[2] Plus 1/16.

Exhibit No. 2856

Washington, *September 10th, 1917.*

My Dear Mr. Crosby: Further referring to our issue of Treasury notes due on the 15th of October prox., in order that you may have full information, I beg to mention that the period within which holders could exercise an option to convert the notes into 5½% bonds, expired on the 15th of last month, prior to which time circular notices were sent to the known holders, as per copy I am enclosing herewith.

The bankers who placed the loan have an option under our agreement with them, to sell during thirty days commencing October 15th next, our bonds in an amount equal to any notes not converted. But the bankers consider the possibility of selling the bonds so very slight that in answer to my enquiry as to their attitude in respect to the option, have just informed me that they are quite willing to surrender it.

For the consideration you are giving the general subject, I would inform you quite confidentially that our loan of 1918 did not find an immediate sale. And it was only after the bankers had made the most vigorous kind of a campaign that the entire issue was placed, some of the notes not being sold until a short time of the expiration of the period during which they had a right to sell. This, I was informed, was not on account of any questioning of Italian credit, but because American investors were not accustomed to investing in foreign securities.

The first series of notes, which matured in 1916, included an option to extend for one year, but very many difficulties were encountered, the most serious ones indicated to me by the bankers being the pronouncements of the Federal Reserve Board on investing in such securities and the fact that other governments were offering bonds secured by collateral of a nature my Government was unable to furnish.

Apart from the loan under discussion, under instructions of my Government, I made most diligent and exhaustive efforts to effect a substantial loan through the best qualified agencies to this country, but I was invariably informed that a loan without collateral was out of the question, and my Government did not possess bonds of neutral governments or of American railways or industries as were being offered by other borrowers.

If there is any other element about which you would care to have information in discussing the matter with the Secretary of the Treasury, which I trust you may be able to find it convenient to do at any early opportunity on account of its being necessary for my Government to deposit the money on the 4th of October, I shall take pleasure in furnishing it to you without delay.

I am, my dear Mr. Crosby,
Very sincerely yours,

[s.] MACCHI DI CELLERE.

EXHIBIT NO. 2857

LEE, HIGGINSON & COMPANY,
44 State Street, Boston, September 17, 1917.

Honorable OSCAR T. CROSBY,
Assistant Secretary of the Treasury, Washington, D. C.

DEAR MR. CROSBY: I have taken up with my partners the question of refunding or extending the $25,000,000 Italian Government 6% notes, due October of this year

We believe it would be impossible to extend these notes even under pressure. The investors market for securities has fallen absolutely flat, owing to the near approach of the next Liberty Loan, and the Italian Government has no collateral to pledge which would make these notes in any way attractive to the banks.

Under the circumstances, we very much regret to say that we will be unable to arrange an extension.

Very truly yours,

[s.] W. PENROSE HALLOWELL.

EXHIBIT NO. 2858

[Telegram]

A 45 BX 245 NL.

BOSTON, MASS.—3—*1917 Oct. 4—a. m. 1:35.*

Hon. OSCAR T. CROSBY,
Treasury Dept., Washington, D. C.

As both Mr. Hallowell and Mr. Allen explained to you we would be delighted to renew this loan if we could but it is absolutely impossible through no fault of our own. The fact that other governments have collateral and this Government has none and the market fields on foreign loans are as they are makes it out of the question to renew any portion of this loan. A compulsory renewal would be interpreted as a partial default and would be extremely unfortunate at this time in the midst of our own Liberty Loan campaign when it would receive either publicly or quietly wide attention among bankers and would tend inevitably to reduce funds available for the Liberty Loan on October fifteenth. Vast amounts of foreign loans are held in the banks and this would in their mind be a frightening precedent. The Government in question understand our position and agrees thoroughly with it. It seems to us some way should be figured out to establish a credit in the country in question in connection with our Government war purchases there and thereby furnish them with funds to take up their loan here. October fifth is the date under the contract when money should be in our hands. Many are asking us now about it as the date is quite widely known and if we are not able to say definitely after that date that the note will be paid great anxiety will be caused.

LEE, HIGGINSON & CO.

EXHIBIT No. 2859

SEPTEMBER 28, 1917.

Hon. THOMAS W. GREGORY,
Attorney General.

DEAR MR. ATTORNEY GENERAL: I have the honor to request that you be good enough to advise this Department as to whether, under the operations of section 2 of an act of Congress approved September 24, 1917, copy enclosed, the Secretary of the Treasury, with the approval of the President, would be authorized to lend money to a foreign government engaged in war against Germany, which money would with the knowledge of the Secretary of the Treasury be used for paying any obligations of such government issued before the date of the act and maturing after that date.

In order that the particular difficulty now presented may be better understood, permit me to state that the Italian Government some time last year borrowed $25,000,000 in this country on relatively short-term bonds, which were issued through the various Boston banking houses. These bonds mature early in October of this year. The Italian Ambassador is now urging, with very great concern, that funds should be lent to his Government in order that these bonds may be taken up, stating that his own Government is wholly without means to meet their indebtedness. If money were loaned under the operations of the act of Congress above mentioned, the Secretary of the Treasury would indeed purchase "a hereafter-issued obligation", being a proper bond of the Italian Government, the terms and conditions conforming to that statute. But there is reason to doubt the propriety or legality of an action which is indirectly a purchase of obligations which were issued by the Italian Government before the passage of the act.

The matter is one of very grave concern to the Italian Government and indirectly to this Government. I therefore venture to ask that if convenient you will be good enough to advise the proper course in this matter at an early date.

In the meantime, I am
Cordially yours,

[s.] OSCAR T. CROSBY,
Acting Secretary.

("EXHIBIT No. 2860" appears in text on p. 9043.)

("EXHIBIT No. 2861" appears in text on p. 9045.)

EXHIBIT No. 2862

OCTOBER 19, 1917.

MY DEAR MR. McCORMICK: The Italian Government has received the following credits from this Government:

May 3, 1917	$100,000,000
July 6, 1917	60,000,000
Aug. 15, 1917	40,000,000
Sept. 5, 1917	70,000,000
Total	270,000,000

Against these credits, they have drawn in cash, $255,000,000. The balance not yet drawn has been practically all covered by contracts placed by the Italian Government through the Inter-Ally Purchasing Commission here, or is allocated for the satisfaction of purchases of cereals which have been made for account of the Italian Government by the so-called Wheat Executive, which is a British organization that was established before we came into the war by agreement between Great Britain, France, and Italy. This Wheat Executive purchases for the three Governments named, and makes distributions according to proportions which when last notified to the Treasury Department were as follows: Great Britain, 44%; Italy, 34%; France, 22%. I understand that these proportions have perhaps been modified recently, or that negotiations are in hand looking to a modification. The Italian Government has paid over to the British Government on account of these purchases of cereals, sugar and a few other similar articles, approximately $68,500,000.

The question of transporting these cereals has been substantially in the hands of the British authorities. The Italian wheat supply, although nominally purchased for their account in the United States with funds loaned as above indicated, has come in large part from India. It seemed to all parties concerned good judgment that ships bound from India loaded with wheat should stop in Italy rather than go on to England. The British, considering themselves as supplying this much wheat to Italy, have compensated themselves by correspondingly larger purchases from the American and Canadian market, but the financing between the Governments has been on the basis above mentioned.

That the Wheat Executive of the British Government is active in trying to obtain supplies for the three Governments named, I am assured by the fact that in the last few days Lord Reading has with great insistence urged the necessity of advancing funds to his Government, acting for itself and as the intermediary for the others, with which to purchase all the Canadian wheat crop available for export. Assurance has now been given him that $200,000,000 will be available for this purpose from the United States Treasury. Lord Reading has repeatedly urged that the importance of obtaining this assurance lay in the necessity of obtaining wheat for France and Italy as much as for Great Britain. If it were necessary, the United States Government might intervene in the discussion as to the exact distribution of the total available cereal supplies as between the three European Governments in question, but thus far there has been no suggestion either by the Franch or the Italians that such intervention will be necessary. The only question that has from time to time been discussed is as to whether the cereal purchases should continue to be made through the one executive, or should be made by the independent action of each Government in purchasing from our Food Administration. This program might conveniently be established in the United States, but would perhaps be less easily applicable in Canada and other wheat supplying countries. In any case, it is not now a question which this Government can conveniently raise without inpunging the good faith of operations which seem to have been entirely satisfactory to the three copartners engaged in them.

The credits listed above substantially cover all of the specific requests of the Italian Government made to this Government. They do not correspond to a blanket request presented to the Secretary of the Treasury at the beginning of the loan operations and calling for a total of $3,000,000,000 for the period from approximately April 1, 1917, to July 1, 1918. This blanket requisition has not been in question since a few days after its presentation, because it was early indicated to the Italian Government, as to all other borrowing governments, that it was impossible to make allocations of such vast sums covering such long periods. Like other governments, the Italian Government has received from time to time the particular credits asked for, with the result as above stated. There is a request now before the Secretary of the Treasury for an additional credit of $100,000,000 for the Italian Government. Action upon this was delayed because an extremely difficult case was presented, which was solved a few days ago after much negotiation by advancing $25,000,000 to the Italian Government to meet its notes placed in this country long before our entrance into the war, and finally maturing on the 15th of October. This case presented difficulties, first, on account of certain doubts as to the legality of advancing funds for paying an old debt of this sort; and, second, because it seemed desirable in any case to exhaust all possible efforts to have such maturities renewed rather than have them paid by additional advances from the Treasury of the United States. Ambassador Cellere has been indisposed for some days, and I am now awaiting his recovering in order that we may have further discussion as to a further credit that may be established as against possible future needs of his Government as they were indicated in the request for the $100,000,000 credit now in suspense.

I have been informed by British authorities that previous to our entry into the war they had been making advances of $15,000,000 per month to the Italian Government. It will be observed that the average monthly credit extended to the Italian Government here since our entry into the war is approximately $46,500,000. They have been able with these credits not only to supply themselves with the cereals and foodstuffs above referred to, but also with vast quantities of munitions and with a relatively small amount of coal.

In respect to coal, there has been no restriction whatever placed by the Secretary of the Treasury upon the use of funds loaned to the Italian Government for coal purchases. That is to say, any portion of the credit allotted to the Italian Government which they have desired to spend for coal they have been free to expend. The real limitation in respect to this highly important article has been that of tonnage. The Italian officials have had frequent negotiations with our Shipping Board, and I cannot doubt but that that Board has done everything within its power to satisfy their demands. There has been very serious question as to the advisability of shipping coal from the United States to Italy as compared with supplying their demands from Great Britain. In the face of the inability of the British Government to supply the tonnage that they had hoped to supply when the British and Italian Governments considered the coal question in 1916 there was urgent appeal from Italy for additional tonnage from this country, but it has been impossible that the amount which was calculated as a reasonable allowance to Italy should be obtained by adding to the British supply enough of American supply to make up the deficit. Their present receipts from all sources have been reported to me by an Italian representative as approximately 500,000 tons per month. This amount is doubtless too little to secure the best efficiency for Italian military and civil operations insofar as they demand coal.

Except in the matter of tonnage for coal, I believe it may be fairly stated that no substantial requests of the Italian Government for assistance since we entered the war have failed to be satisfied. Doubtless it has been found impossible at times to obtain as promptly as might be desired the actual manufacture and delivery of some of the materials wanted by that Government. In the main, however, they have certainly fared as well in this respect as any other government with which the Treasury Department is dealing, and probably as well as our own Government. In order to expedite deliveries, Italian representatives paid exorbitant prices to many American producers, but this particular malady has been treated, as far as it can be successfully treated, by the conscientious and industrious efforts of the Inter-Ally Purchasing Commission, and by the fixation of prices through other United States governmental agencies.

If any further information as to the operation of the Treasury with the Italian Government can assist you in completing the inquiry which the President desires to have made concerning this matter, please command me.

In the meantime, I am

Cordially yours,

[s.] OSCAR T. CROSBY,
Acting Secretary.

Honorable VANCE MCCORMICK,
Chairman, War Trade Board.

EXHIBIT NO. 2863

APRIL 25, 1918.

His Excellency Count V. MACCHI DI CELLERE,
Ambassador Extraordinary and Plenipotentiary,
The Italian Embassy, 1759 R Street, Local.

MY DEAR MR. AMBASSADOR: I understand that the American Army has already made certain contracts and contemplates making additional contracts and expenditures in Italy. It is important for both Governments that arrangements be made for supplying the funds so required in such a way as to obtain the collateral benefits. I suggest, therefore, that an arrangement be made with the Italian Government, similar to that which we have made with the French and British Governments, whereby the Italian Government will, upon request of the Secretary of the Treasury, deposit with specified depositaries in Italy lire for credit of designated disbursing officers, and, upon the receipt of cable advice from the depositary of receipt of such deposit, the Treasurer of the United States will reimburse the Italian Government by paying to you the corresponding amount of dollars, to be used in payment of commodities purchase in the United States by the Italian Government, or for such other purposes as may be agreed upon from time to time.

Under this plan, it would be necessary for us to agree upon a fixed rate of exchange for each month in order to systematize the accounting of the Army Departments.

If this meets with your approval, I suggest that you ascertain by cable if such an arrangement would be agreeable to your Government.

I am, my dear Mr. Ambassador,

Very truly yours,

[s.] R. C. LEFFINGWELL.

EXHIBIT No. 2864

ROYAL ITALIAN EMBASSY,
Washington, D. C., May 6th, 1918.

Honorable Mr. R. F. LEFFINGWELL,
Assistant Secretary of the Treasury,
Washington, D. C.

MY DEAR MR. LEFFINGWELL: With my letter of the first instant, #9062, I had the pleasure to advise you that the estimates of cash advances to be requested of the United States Treasury during the months of May would have amounted to forty million dollars ($40,000,000).

You are perfectly aware that under the credits already granted by the U. S. Government to the Italian Government only thirty million dollars ($30,000,000) are still available besides the twenty-five million dollars ($25,000,000) advanced under special conditions, for the payment of the debt contracted with Messrs. Lee, Higginson and Company; the solution of which is not yet settled.

May, I therefore call to your attention the fact, that the establishment of new credits ought to be considered in order to put the Italian Government in a position to dispose of the necessary amount of money for the purchase of war material in this country and for the other purposes for which an agreement has been reached with you?

I am sure that you are going to give this important question your usual kind attention and I anticipate to you my best thanks and the expression of my consideration.

Faithfully yours,

[S.] MACCHI DI CELLERE,
Royal Italian Ambassador.

EXHIBIT No. 2865

[From the files of J. & W. Seligman & Co.]

DECEMBER 27, 1916.

DRAFT

We hereby offer and recommend to you for investment, participation certificates issued by the Central Trust Company of New York, as depositary, in a loan made by us to the French Government, secured by St. Louis & San Francisco 5% general lien bond certificates of deposit, with a margin of 20% which margin is to be kept good. The loan matures October 16, 1917, and bears interest at the rate of 6% per annum, payable April 16th, 1917, and October 16th, 1917.

The loan was made for the purpose of permitting the French Government, in connection with its efforts to control the exchange situation, to deal with the St. Louis & San Francisco 5% general lien bonds of the French series, and is for a maximum amount of $13,800,000. The actual amount will probably be less than this maximum amount and will depend on the amount of such French series bonds as the French Government may acquire. In any event, the value of the pledged collateral is at all times to be maintained at not less than 20% in excess of the face amount of the amount loaned.

The greater part of the participation certificates in above loan have been withdrawn for investment and the amount that we are in a position to offer you is, therefore, limited. Will you be good enough to let us know your wishes in the matter with as little delay as possible.

EXHIBIT No. 2866

[In pencil: "Notice of redemption French Govt."

J. & W. SELIGMAN & CO.,
No. 1 William Street, New York, January 2, 1917.

CENTRAL TRUST COMPANY OF NEW YORK,
54 Wall Street, New York City.

DEAR SIRS: As depositary under the indenture dated September 16, 1916, between the undersigned, yourselves as depositary and holders of loan certificates issued and to be issued thereunder, we hereby notify you on behalf of the French Government, pursuant to section 1 of article four of said indenture and article tenth of the loan agreement therein referred to, that the French Government will redeem on February 1, 1917 (being not less than four weeks from the date of delivery hereof to you) $2,307,829 in principal amount of the loan, and that the sum of $2,348,215.99 in cash received by you upon the exchange of Bankers Trust Company certificates of deposit under the reorganization plan of St. Louis & San Francisco Railroad Company, including the payments upon past due coupons upon the securities received upon said exchange, is to be applied to the redemption of said part of the principal of the loan and $40,386.99 accrued interest thereon to said date of redemption. You are at once to proceed, for a period not exceeding ten days after the receipt of this notice, to apply said sum to the purchase of loan certificates to a principal amount equal to the principal amount of the loan to be redeemed as above stated, which purchase is to be made under the direction of the undersigned at not to exceed the face value thereof and accrued interest.

If and to the extent that loan certificates cannot be purchased as aforesaid, then you are to apply the moneys remaining in your hands to the redemption of loan certificates to such principal amount as will, together with the principal amount of the loan certificates purchased, equal $3,307,829, the principal amount of the loan to be redeemed as first above mentioned.

Yours truly,

(Signed) J. & W. Seligman & Co.

Exhibit No. 2867

HAUT COMMISSARIAT DE LA REPUBLIQUE FRANCAISE AUX ETATS-UNIS,
Washington, le 4 Octobre, 1917.

(*Le Haut Commissaire de la Republique Francaise, a M. Oscar Crosby, Assistant Secretary of the Treasury, Washington, D. C.*)

Mon cher M. Crosby: J'ai l'honneur de vois accuser reception de votre lettre du 2 Octobre faisant suite a une conversation que vous avez eue lundi avec moi et mardi avec M. Simon, au sujet de l'emprunt Seligman.

Apres mure reflaxion, la situation m'apparait comme suit.

D'une part vous estimez que les leis americaines ne vous permettent pas d'autoriser le remboursement de nos emprunts sur les fonds avancea par le Gouvernement Americain et que, par suite, a leur echeance, ces emprunts doivent etre soit renouveles, soit remplaces par des operations de credit analogues, a moins que le Gouvernement Francais ne dispose pour les rembourser de ressources propres completement independates des fonds avances par les Etats Unis depuis leur entree dans la guerre.

D'autre part vous reconnaissez, comme nous, l'interet considerable qu'il y a a repredre possession des titres qui formant la garantie de l'emprunt Seligman de Septembre 1916 pour nous mettre a meme de degager du collateral de nos autres emprunts les valeurs espagnoles si necessaires en ce moment. Vous mesurez, d'autre part, autant que nous-memes, le grave prejudice que causerait au credit francais un renouvellement a 7% d' un emprunt de cette nature.

J'ai cherché entre ces deux ordres de considérations une conciliation loyale et je crois l'avoir trouvée.

Cette solution consiste, pour le Gouvernement Français, à procéder immediatement sur le marché américain à une émission de bons du Trésor semblables à ceux qu'émet actuellement le Gouvernement Britannique—et ce pour un montant correspondant à celui de l'emprunt à rembourser

Comme toutefois une émission de 10 millions de dollars pourait, par son peu d'importance, produire mauvaise impression, je vous proposerais de fixer le montant maximum de l'operation à 50 millions de dollars, à réaliser par tranches necessaires de 10 millions. Pour le moment, nous n'émettions que la premiére tranche, l'émission des tranches suivantes restant subordonnés à nos besoins, aux possibilités du marché et à des accords ultérieurs avac vous. Je me suis assuré que la Maison Morgan estime pouvoir placer immediatement la prèmiere tranche dans des conditions satisfaisantes.

Je n'ai pas manqué d'autre part de me préoccuper de l'influence éventuelle de l'opération sur le marché financier, en raison de l'émission du second Liberty loan. Je suis sûr que vous penserez avec moi qu'il n'y a pas, de ce fait, de difficulté réelle, puisque l'opération projétée équivaut, en fait, au renouvellement de l'emprunt Seligman; son montant est le même que celui de cet emprunt et les banques qui prendront les bons du Trésor seront pratiquement celles qui auraient pris les certificats de participation à l'emprunt renouvelee.

Cette objection possible étant écartés, les avantages sont évidents.

10. Nous nous mettons en mesure de réaliser le degagement des titres espagnols;

20. Nous evitons un taux d'interet prejudiciable à notre credit, vraiment inacceptable pour le Gouvernement Française et dont, en derniere analyse, la charge finirait toujours par retomber sur le Tresor Americain;

30. Nous repondons á votre desir de n'affecter au remboursement de l'emprunt Seligman aucune partie des avances consenties par les Etats Unis depuis leur entree dans la guerre;

40. Le reneuvellement tel que vous l'avez envisage dans nos conversations, ne pouvait etre fait que pour une durée de six mois, a l'expiration desquels la question se serait posée de nouveau et dans des conditions plus difficiles encore, car les banques constituant le syndicat avaient, vous le savez, mentre peu d'emprassement pour le premier renouvellement. Au contraire le renouvellement des bons au Tresor se fera sans difficulte et de façon presque automatique;

50. Enfin nous aurons cree un organismé dont le role ne sera pas necessairement limite a l'operation actuelle et qui pourrait eventuellement nous procurer les ressources necessaires pour faire face á d'autres echeances d'une nature analogue.

Je crois donc tres sincerement que cette solution est la moilleure possible et je vous demande instamment de l'accepter.

Si vous etes d'accord sur le principle, je vous serai reconnaissant de me le faire savoir le plus tot possible, car en raison de l'echeance rapprochée (15 Octobre) l'operation devrait etre executre sans delai.

Veuillez agreer, cher Monsieur Crosby, l'assurance de mes sentiments les meilleurs.

[s] ANDRE TARDIEU.

HAUT COMMISSARIAT DE LA REPUBLIQUE FRANCAISE AUX ETATS UNIS,
Washington, October 4, 1917.

(*The French High Commission to Mr. Oscar Crosby, Assistant Secretary of the Treasury, Washington, D. C.*)

[Translation from the French by Munitions Committee]

MY DEAR MR. CROSBY: I have the honor to inform you of the receipt of your letter of October 2, referring to a conversation you had with me on Monday and with M. Simon on Tuesday on the subject of the Seligman loan.

After ripe reflections the situation appears to me to be as follows:

On the one hand you believe that the American laws do not permit you to authorize the reimbursement of our loans with funds advanced by the American Government and that therefore, at their expiration, these loans should either be renewed or replaced by similar credit operations; at any rate that the French Government should plan to pay them off with resources completely independent of funds advanced by the U. S. since their entrance into the war.

On the other hand, you recognize as we do the considerable interest that there is in retaking possession of the shares from the collateral of the Seligman loan of 1916, in order to apply them to release the Spanish securities from the collateral of our other loans, so necessary at this time. On the other hand, you consider, as well as we do, the grave damage that a renewal of a loan of this nature at 7 percent will cause to French credit.

Between these two lines of consideration I have searched for a loyal conciliation and I believe I have found it. This solution consists, for the French Government, in proceeding immediately to the issue on the American market of Treasury bills similar to those which the British Government is now issuing—and for an amount corresponding to the loan to be repaid.

Since an issue of $10,000,000 might nevertheless produce a bad impression because of its lack of importance, I shall propose to you that the maximum amount of operations be fixed at $50,000,000, to be realized by necessary installments of $10,000,000. For the present we shall issue only the first installment, the issue of subsequent installments depending on our needs, the possibilities of the market and on further agreements with you. I have assured myself that the House of Morgan believes it possible immediately to place the first installment under satisfactory conditions.

I have not failed on the other hand to devote my attention to the ultimate influence of the operation on the financial market, because of the issue of the second Liberty Loan. I am sure you will agree with me that no real difficulty will result from this, since the proposed operation is equivalent in fact to a renewal of the Seligman loan, its amount is the same, and the banks which are taking the Treasury bills are practically the same as those which would have taken the participation certificates in the renewed loan.

This possible objection being removed, the advantages are evident:

1. We put ourselves in a position to effect the release of the Spanish securities.
2. We avoid an interest rate prejudicial to our credit and unacceptable to the French Government, and whose expense in the last analysis will always end by falling on the American Treasury.
3. We comply with your desire that the Seligman loan be paid by no part of the advances made by the United States since their entrance into the war.
4. A renewal such as you envisaged in our conversations could be made only for a duration of 6 months, at the end of which the question would be presented again and under still more difficult conditions, because the banks constituting the syndicate have, as you know, manifested little eagerness toward the first renewal. The renewal of the Treasury bills, on the other hand, will be made without difficulties and almost automatically.
5. Lastly we shall have created a machine whose operations will not necessarily be limited to its present role, but which will eventually be able to procure for us the resources necessary to face other similar maturities.

I believe very sincerely that this solution is the best one possible and I ask you to accept it promptly.

If you agree on the principle, I should be grateful if you would inform me as soon as possible, since because of the approaching due day (Oct. 15) the operation should be executed without delay.

Accept, dear Mr. Crosby, the assurance of my best wishes.

ANDRE TARDIEU.

EXHIBIT No. 2868

[From the files of J. & W. Seligman & Co.]

[Copy]

SEPTEMBER 25, 1917.

FS/J

J. FREDERIC BLOCH, Esq.,
Financial Agent of the French Government,
2 Rector Street, New York City.

DEAR MR. BLOCH: In accordance with our yesterday's conversation, I am writing you about the loan of the French Government maturing October 16 secured by St. Louis-San Francisco bonds.

It is needless to say that in times like the present, when the United States Government's requisitions on the money markets there are as great as they are now, holders of obligations about to mature, prefer to receive cash rather than to extend, but we as well as all of those associated with us, want, so far as it is possible, to meet the wishes of the French Government and we are accordingly inclined to extend for six months, the loan about to mature.

With the French Republic secured bonds having 18 months to run selling on a 7.7% basis of interest yield, and with the United Kingdom of Great Britain and Ireland secured obligations having a little less than a year to run selling on a 7.1% basis—not to mention longer maturities, selling in the case of the United Kingdom of Great Britain secured bonds falling due November 1, 1919, on an 8% basis—the rate of interest would naturally have to be comparatively high.

Under the circumstances, the rate of interest which we suggested to you, namely, 7% for a six months' extension, would seem to be not unduly high. Of course, if the French Government should prefer to pay off the loan rather than extend on these terms, we should understand its point of view, but I feel certain that the French Government will similarly appreciate our attitude in the matter of interest rate, which must necessarily have to be in conformity with money market conditions.

I repeat what I told you when we first discussed the matter, namely, that J. & W. Seligman & Co., although entitled to a reasonable commission of say ¼% for its services in the matter, would be entirely willing to work for no compensation at all, receiving merely reimbursement of their actual outlays in connection with the extension, should the French Government prefer to have us do so.

We should esteem it a favor to hear from you as soon as you can conveniently let us know whether the Government prefers to extend or to pay off the loan.

Very truly yours.

——— ———.

("Exhibit No. 2869" appears in text on p. 9068.)

("Exhibit No. 2870" appears in text on p. 9069.)

Exhibit No. 2871

March 29, 1918.

France

Memorandum for Mr. Leffingwell.

French bank balance April 1 (estimated)		$38, 000, 000
April 1 pay British	$10, 000, 000	
Coupons	2, 750, 000	
Purchases	2, 000, 000	
		14, 750, 000
Balance morning April 2		23, 250, 000
April 2 United States advances		15, 000, 000
		38, 250, 000
Purchases April 2 and 3		4, 000, 000
Balance morning April 4		34, 250, 000
April 4 United States reimbursement	6, 000, 000	
United States advance	5, 000, 000	
		11, 000, 000
		45, 250, 000
Purchases April 4, 5, and 6	6, 000, 000	
April 5 payment to Bank of France	10, 000, 000	
Coupons	1, 500, 000	
Maturities	5, 000, 000	
		22, 500, 000
Balance morning April 8		22, 750, 000
April 8 purchases	2, 000, 000	
British	10, 000, 000	
		12, 000, 000
Balance morning April 9		10, 750, 000
April 9 United States advance		15, 000, 000
		25, 750, 000
April 9 and 10 purchases	4, 000, 000	
Belgian relief	6, 000, 000	
		10, 000, 000
Balance morning April 11		15, 750, 000
United States advance April 11		40, 000, 000
		55, 750, 000
Purchases April 11, 12, and 13		6, 000, 000
Balance morning April 15		49, 750, 000
April 15 purchases	2, 000, 000	
Payment to British	10, 000, 000	
Payment to Bank of France	10, 000, 000	
Treasury bills	9, 200, 000	
Coupons	6, 250, 000	
		37, 450, 000
Balance morning April 16		12, 300, 000
United States advance April 16		20, 000, 000
		32, 300, 000

FRANCE—Continued

Purchases April 16 and 17		$2,000,000
Balance morning April 18		30,300,000
United States advance April 18		5,000,000
		35,300,000
Purchases April 18, 19, and 20	$6,000,000	
April 20 interest	1,080,000	
Purchases April 22	2,000,000	
April 22 payment to British	10,000,000	
		19,080,000
Balance morning April 23		16,220,000
April 23 United States advance		5,000,000
		21,220,000
Purchases April 23 and 24		4,000,000
Balance morning April 25		17,220,000
April 25 United States advance		15,000,000
		32,220,000
Purchases April 25, 26, 27, and 29	8,000,000	
April 25 Bank of France	10,000,000	
April 29 British (no payment)		
		18,000,000
Balance Tuesday, April 30		14,220,000
United States advance		15,000,000
		29,220,000
Purchases April 30		2,000,000
Balance morning May 1		27,220,000
Proposed United States advances to France during April on the assumption that no reimbursements made for Army expenditures other than the $6,000,000 in process of arrangement:		
April 2	$15,000,000	
April 4	5,000,000	
April 9	15,000,000	
April 11	40,000,000	
April 16	20,000,000	
April 18	5,000,000	
April 23	5,000,000	
April 25	15,000,000	
April 30	15,000,000	
	135,000,000	
French started March 1 with a credit of		125,000,000
Loans to France during March:		
March 5	35,000,000	
March 14	20,000,000	
March 19	20,000,000	
March 26	15,000,000	
		90,000,000
Balance February credit available April 1		35,000,000

The above figures estimate expenditures for purchases at $52,000,000. Mr. Simons' estimate $67,800,000 not included in above British claim for reimbursement of over $9,000,000, nor regular payment on April 29 to Great Britain of $10,000,000. There will be some reimbursements for Army expenditures not possible to estimate now. Immediately after April 9 a new credit must be established for France and unless the situation is changed in the meantime a new credit of $125,000,000 is recommended which should carry well into May.

[s.] A. R. N. H. D.

EXHIBIT No. 2872

[Handwritten memo: To the Secretary. This letter has been carefully prepared to cover the situation which Tardieu presented to you personally some time ago. It will be accepted by Tardieu, if you approve. [s.] R. C. L.]

TREASURY DEPARTMENT,
OFFICE OF THE ASSISTANT SECRETARY,
March 11, 1918.

DEAR MR. TARDIEU: I wish to thank you for your ready acceptance of my views as expressed in the recent conferences which you have had with the Treasury Department. As a result of these conferences, I understand the arrangements to be as follows:

(1) All available funds of the French Government in the United States from whatever source arising, shall be used as may be required for the purpose of meeting the dollar expenditures of the French Government in the United States; and

(2) Advances are not to be made to the French Government by the United States Treasury as long as the cash balances of the French Government in the United States may be sufficient to meet its day to day cash requirements in the United States; for which an average daily bank balance of $30,000,000 will be considered sufficient.

You call my attention to the fact that the amounts which the French Government receives from the United States Government in reimbursement of the sums advanced in France by the French Government for United States Army expenditures, together with any sums received by the French Government from other sources than those advanced from the United States Treasury to France, should be available to meet the interest and principal of the obligations of the French Government created before the entry of the United States into the war, or for any other like needs of the French Government in the United States.

I appreciate the force of this proposition and although I have heretofore been unwilling to assent to the use by the French Government of funds advanced to it by the United States for such purposes, I now accede to the principle that future dollar advances that may be made to the French Government by that of the United States may be used to pay, when due, the interest upon and principal of the obligations made by or for the French Government, payable in the United States, or for other like cash requirements of your Government in the United States, up to the aggregate of the amounts received by the French Government in reimbursement of the advances made by that Government for the United States Army expenditures in France, together with the amounts which may be received by the French Government from sources other than United States credits, and on the understanding that all securities now held as collateral to obligations of the French Government, and which will be released by the payment of the said obligations, as well as all other securities held by your Government in the United States, shall be used by you in such manner as may be agreed between us as most advantageous in the common interest.

In accepting the distinction between the two classes of funds above referred to, I wish to express the hope that before making arrangements to pay maturing obligations you will confer with the Treasury Department in relation to the matter. In the common interest it may well be more desirable when obligations mature, either to extend them or to make some other arrangement in respect thereof, rather than to pay them off.

A full exchange of views between your Government and the Treasury Department in relation to all such matters, will, I am confident, be mutually advantageous.

I am. my dear Mr. Tardieu,
Very truly yours,

[s.] W. G. MCADOO.

Mr. ANDRE TARDIUE,
French High Commissioner,
2003–2005 Columbia Road, NW., Washington, D. C.

("EXHIBIT No. 2873" appears in text on p. 9072.)

("EXHIBIT No. 2874" appears in text on p. 9075.)

EXHIBIT No. 2875

MARCH 19, 1918.

FRANCE

The amount expended by France for exchange is of a less complex character than the disbursements shown under the same head for Great Britain. Since March 1917 importations into France have in general been prohibited but in some cases imports from the United States are authorized and in such cases the Bank of France undertakes to provide importers with New York funds sufficient to pay for these purchases. The dollar funds so provided constitute the major part of the exchange payments. There is included, however, under this heading an amount of $47,500,000 expended in New York in purchasing drafts on Paris or in making payments for cotton; of this amount cotton bills and cotton payments account for $58,452,267.58. As already noted some purchases for French accounts were paid for by drafts on London, this being true particularly in the earlier part of the period. The purchases of these drafts are included in the British item of exchange and the amount of the transactions as estimated from time to time by the French and British Governments forms part of the reimbursement by the French Government to the British.

It was necessary during the period to provide funds to enable the French Government to meet its maturing obligations in the United States, that Government having then no other funds available for such purposes. It is now, however, furnishing supplies to our Army in France and it has been agreed that settlement for these purchases shall be made by payments in dollars, and that the amounts so paid shall be available to meet maturing obligations of the French Government in this country. To the extent that they may not be required for that purpose they will go to reduce the loans which would otherwise be made by our Government.

The contributions for relief include part of the amount provided by the French Government toward the relief of Belgium and northern France. At present the Governments of the United States, France, and Great Britain undertake to provide $15,000,000 monthly for purchases in the United States and not less than £1,500,000 for purchases elsewhere. The former amount is provided as to $9,000,000 by our own Government and as to $6,000,000 by the French Government, while the sterling payment is provided by the French and British Governments in such proportions as they may agree upon.

OTHER COUNTRIES

By reason of extraordinary conditions existing during the summer of 1917 it was deemed expedient to grant credits to Russia applicable to expenditures outside the United States. The amounts so expended are far more than offset by expenditures on Russian account in the United States during the period out of funds provided by Great Britain from her own sources.

The greater part of the advances to Belgium represents advances for the purchase of American supplies for the relief of the population of that country. The whole of the advances to Serbia are for relief, but in that case a substantial part of the supplies have necessarily been purchased outside the United States.

EXHIBIT No. 2876

OCTOBER 29, 1917.

J. FREDERICK BLOCH, Esq.,
Financial Agency of the French Republic in the United States,
2 Rector Street, New York, N. Y.

DEAR SIR: Referring to our recent conversation concerning the St. Louis & San Francisco securities which you wished to substitute for certain Spanish external 4% bonds now held as security under the indenture dated August 1, 1916, of the American Foreign Securities Company, we would suggest that the following prices be used as a basis for such substitution:

St. Louis & San Francisco prior lien mortgage 4s, series A, at	56 and interest.
St. Louis & San Francisco cumulative adjustment mortgage 6s, series A, at	58 and interest.
St. Louis & San Francisco income mortgage 6s, series A, at	42 and interest.

As you will note from the official quotation sheet of the New York Stock Exchange of today, the prices above mentioned represent a margin of between 2½ and 3 points from the bid prices as officially quoted. We consider that this margin is necessary in accordance with the recognized custom of valuation of collateral in this country and especially so in view of the fact that the amount of the particular securities to be substituted is so large that unless a very conservative level of prices was observed, such substitution might be open to criticism.

We have conferred with Messrs. Brown Brothers & Company regarding this matter and they concur with us in this suggestion.

Yours very truly,

——— ———.

GW/AGW.

Exhibit No. 2877

[Telegram]

New York, *9th December 1917.*

(*From High Commissioner to Minister of Finance*)

[Translation]

Regarding expenses to be made in France by the American Army, the Treasury proposals, after interviews with the War Department and myself are the following:

The American paymasters in France, according to their needs will send requisition orders to the Treasury at Washington. This will then apply through my organization for the corresponding amount in francs to be put at the disposal of such and such a paymaster in France in a bank of deposit which will be appointed for the purpose.

As soon as the Treasury receives the cable advising it of the deposit, it will put to the credit of our account in New York the corresponding amount of dollars at the rate of exchange on that day as fixed by common agreement.

Will you kindly let me know if you agree on that point; I think, although agreeing with the principle of compensation which seems to me fair, that we ought not to be limited in the different means of employing dollars received against funds placed at the disposal of the American Army, as we are in regard to advances granted by the American Government. We ought particularly to be authorized to use them for repayment of credits.

S. deBilly.

Exhibit No. 2878

December 3, 1917.

Dear Mr. Simon: Referring to your conversation with Mr. Davis relative to funds required by our War and other departments in France for settlement of accounts in francs, I understand that the following arrangement would be acceptable to your Government:

For funds required by Army disbursing officers in France the War Department of the United States Government will, from time to time, make requisition upon the Treasury Department. The French Government will, upon request of the Treasury Department, deposit in a specified depository in Paris to the credit of the disbursing officer designated an amount in francs equivalent to the dollars requested by the War Department at a current rate of exchange to be agreed upon from time to time. Upon cable advice from the depository bank acknowledging receipt of such deposits from the French Government, the United States Treasury Department will immediately pay to or deposit in New York to the credit of the French Government the stipulated equivalent in dollars.

I should be pleased to know if the above plan is in accordance with your understanding and if it is acceptable to your Government.

In case such an arrangement is made, I assume that your Government will use the dollar funds thus received for meeting its dollar requirements for purchases here and would, therefore, reduce correspondingly its request for dollar advances from the United States Treasury. Please advise me if this also would be acceptaboe to your Government.

Very sincerely yours,

[s] R. C. Leffingwell,
Assistant Secretary of the Treasury.

Mr. Joseph Simon,
c/o French High Commission,
2505 Columbia Road, Washington.

EXHIBIT NO. 2879

[Telegram]

No. 101 DU 17 DECEMBER 1917.

From Finance (Mouvements des Fonds) to High Commissioner (M. de Billy)

[Translation]

I fully agree, under the restriction that we shall not be limited as regards the use of dollars to be received against francs placed at the disposal of the American Army as we are regarding advances granted by the American Government.

I talked with Mr. Tardieu over these two matters and it has been settled between us that the High Commissioner will take them in hand as soon as he returns.

I ask you, therefore, not to give any definite answer to the Treasury on the two points mentioned before M. Tardieu's arrival.

EXHIBIT NO. 2880

FEBRUARY 12, 1918.

Mr. ANDRE TARDIEU,
High Commissioner of the French Republic,
2003 Columbia Road NW., Washington.

DEAR MR. TARDIEU: I received yourletter of February 9th and appreciate your prompt and full reply to my letter of the 8th. I have since had a long talk with Mr. Simon and Mr. Casenave, and I am confident that as a result of this and other conferences which I am looking forward to the differences of view which our correspondence has developed will be readily adjusted.

I ought perhaps to mention that Mr. Simon was mistaken in thinking that there has been any change in the view of the Secretary as to the maturing obligations of your Government. I shall, however, be glad to bring the matter again to the attention of the Secretary in the light of the considerations presented in your letter and further considerations which Mr. Simon has suggested and has been good enough to say he will develop.

I desire particularly to express my appreciation of your ready assent to the principle that the demands of your Government shall be limited to the same strictly needed for indispensable payments.

With renewed appreciation of the very helpful spirit in which you and your associates have approached these and other negotiations, and with assurance of my profound respect, I am, my dear Mr. Tardieu,

Cordially yours,

/s/ R. C. LEFFINGWELL.

EXHIBIT NO. 2881

102.1/669. 102.1/630.

(*Telegram received from Paris, dated March 11, 1918. Rec'd. 12, 5:32 p. m.*)

SECRETARY OF STATE,
Washington,
3325. March 11th.

"For Secretary of the Treasury. Number 204. Your number 98. On account of delays in receiving information concerning questions raised in last meeting of Council, and subsequent scattering of members, my number 86 was sent before being submitted in its entirety to Council. British and Italian delegates were shown copies immediately with understanding if they disagreed with any portions of it, their disagreements would be reported to Washington. In doing this, I had in mind particularly the following:

"'On account of the several uncertainties affecting payments actually required, figures given here are therefore outside figures and net credits recommended are only those which will be found actually necessary to meet payments based upon program herein transmitted.'

"This was specifically important in case of France since Minister of France believed that he had received from Tardieu positive assurance of one hundred and sixty-five million dollars credit for February irrespective of any recommendations of council or deliveries of goods in America. Reduction of French figures to one hundred and fifty-five million dollars he considered as purely voluntary on his part. This misunderstanding together with that explained in my number 203, accounts largely for a situation which is now being cleared up. Klotz seems to fully accept theory that payments should be made to his Government only for actual disbursements required, within limits of outside figures connected with general program. His chief concern now is that such part as may be necessary of payments made account of our Army expenditures here, *available* (not available?) for meeting French obligations in the hands of our (*) or public. Of course an equivalent to this would be assurance, that if all moneys spent by us here are immediately applied to reduction of borrowings, that obligations above mentioned would be met, when necessary, by advances from Treasury. They naturally look to payment of British quarterly on February first as precedent. My own view is that it is better to make adjustment by having them invest some of the moneys advanced to us here in our certificates of indebtedness to be used when their quarterly mature rather than to enter into any positive engagements for meeting their quarterly a long time in advance. If they are thus given control for certain purposes, of funds resulting from advances made to us here, cases doubtful under the statute or as to policy *could covered with* such funds, while funds lent directly from Treasury may be subjected to more rigid control. Last sentence of your number 97 suffered somewhat in transmission, but I understand it to be in substantial accord with the recommendations quoted above from my number 86. Is this correct?—CROSBY."

SHARP.

HG.

EXHIBIT NO. 2882

MARCH 19, 1918.

Memorandum for Mr. Leffingwell: [1]

The French maturities for 1918 aggregate but $74,000,000. While it might be possible to pay one-half of the industrial credits of $50,000,000 and extend the balance for a short period, in view of the amounts of the past and expected future reimbursements to the French for our Army expenditures in France and the French maturities after 1918, about $200,000,000 in 1919 (exclusive of Cities of Lyons, Marseilles and Bordeaux loan of $36,000,000) and $250,000,000 in 1920 (one-half of Anglo-French bonds) it is recommended that the Treasury make no objection to the payment by the French Government of these maturities up to the equivalent of the amounts reimbursed the French for our Army expenditures. (To date the amount reimbursed the French for our Army expenditures is $50,961,025.32.) By the payment of the industrial credits there will be released $50,000,000 of French Treasury securities and $10,000,000 of neutral securities of which a list should be secured if not already furnished. The securities thus released will, of course, be held subject to the arrangement recently made by the Treasury Department with the French Government.

/s/ A. R.

EXHIBIT NO. 2883

MEMORANDUM OF PAYMENTS MADE BY THE FINANCIAL AGENCY OF THE FRENCH GOVERNMENT AT NEW YORK FROM MAY 1ST TO JUNE 15TH FROM THE 150 MILLION DOLLARS RECEIVED FROM THE AMERICAN GOVERNMENT

From May 1st to May 31st the financial agency paid out the following amounts:

(I) Payments made to New York direct for account of the Government:

Artillery	$32,000,000
Ammunition	10,600,000
Engineers	1,700,000
Cavalry	1,600,000
Aeronautics, clothing, physical	200,000
Various disbursements for transportation, storage, etc	1,500,000
Military administration	2,400,000
Marine	500,000
Agriculture, public works	500,000
	51,000,000

(*) Omission.

[1] Penciled note: N. H. D.: Have we ever received the list of securities which we asked for some time ago? R. C. L.

All these payments result from contracts formerly made with the United States at the prices and conditions indicated in the detailed sheets remitted to Mr. Crosby.

(II) Deposits made with Morgan for the credit of Banque de France for payments made by private individuals and manufactures for American products purchased in the United States, $14,000,000.

It must be noted that today, by virtue of the decree of March 18, 1917, all importations are at the outset prohibited; that the Government only permits the importation of products necessary to the manufacturers working for the "National Defense", and that the Banque de France will only sell dollars on the justification of importations of authorized American products.

These $14,000,000 constitute absolutely, then, a sum expended exclusively and entirely in the United States.

It is, besides, largely insufficient; the Government and the Banque de France have made it known on several occasions that the importations from the United States, effected by the merchants or manufacturers for the carrying out of their contracts with the Minister of War (petroleum, oil, gasolene, leather, shoes, metals, machines, etc.) represent more than $30,000,000 per month. The financial agency has only been able to deposit $14,000,000 instead of $30,000,000, on account of a lack of necessary funds. Numerous payments have had to be put off, and New York Exchange at Paris has fallen from 5.70 (end of April) to 5.75 (telegram from the Governor of the Bank of France June 14th).

(III) Payment to the English Government, which should be considered as a payment on account of the cost of cereals, sugars purchased in the United States, and not yet paid by France: $25,000,000.

Total for the month of May, $90,000,000.

(I) From June 1st to 15th, the expenses have been the following (expenses not yet entirely liquidated):

(a) From May 1st to June 10th the disbursements effected for account of the war by the financial agency by virtue of the contracts formerly existing reached the following figures:

Artillery	$12, 500, 000
Ammunition	3, 500, 000
Engineers	500, 000
Cavalry	700, 000
Clothing, physical, aeronautics, transportation, etc	300, 000
Provisions for the Army	800, 000
Fodder for army	100, 000
Marine	200, 000
Public works and agriculture	200, 000
	18, 600, 000

(b) The statement of those expenses between the 10th and 15th has not yet been made because they are only liquidated every ten days. They can be estimated at the rate of the fixed expenses—therefore half of the above—$9,300,000; in all, $27,900,000.

(II) Amounts deposited for the credit of the British Government with Morgan on account of cereals, sugars, purchased by the English for the common account, $10,000,000.

(III) Amounts deposited for the credit of the Banque de France, for payment of American merchandise purchased by private individuals, (see above), $10,000,000.

(IV) Purchase of American boats for the state and railroads in Algiers, $1,600,00.

Therefore for the first two weeks of June, $49,500,000, and for the period between May 1st and June 15th, $139,500,000.

But if our expenses have been adjusted in a manner which enables us to maintain ourselves within the limit of the credits opened by the Treasury ($150,000,000 for May and the first twenty days of June), it is because certain expenses, among the most important, have been adjourned; the months following will have to support, not only their normal share in these expenses, but that portion of the months of May and of June, adjourned until now:

1. It is thus that nothing was paid for orders of rails, cars, locomotives, whose normal amount represents $7,000,000 to $8,000,000 per month;

2. Nothing has been paid, either, for purchases of American products other than the cereals and sugars, purchased through the intermediary of the market of London: cottons, meats, wools, nitrates represent from $23,000,000 to $25,000,000 per month;

3. For the *cereals* and *sugars*, there has only been paid to the English on account, a very insufficient amount ($35,000,000 for the two months, when we are officially advised that our share in the purchases in question of cereals and sugars, represents a minimum of $30,000,000 per month).

4. Only one payment, relatively small, has been made for the purchase of boats, while our naval program in the United States (the realization of which is indispensable for the continuation of the war), represents an expense of three and perhaps four million dollars per month;

5. The Banque de France has only allotted to the French commerce, for its purchases exclusively in the United States, $24,000,000, in one month and a half, while the minimum needs amount to $30,000,000 per month. If this situation should continue the rate of exchange of the franc would fall, for the adjournment of payments cannot be prolonged indefinitely, nor can new private credits be obtained in the United States, as all their disposable funds must be preserved for subscriptions to future interior loans.

6. Not one cent has been paid to the Commission for Relief, a situation which, when considering humanity, dignity and politics, cannot be prolonged any more.

7. Finally, an account will have to be taken of the payments of interest on the former loans from the United States, which represent more than $28,000,000 yearly without mentioning amortization.

EXHIBIT NO. 2884

FRENCH GOVERNMENT—SCHEDULE OF ALL EXPENDITURES FROM UNITED STATES GOVERNMENT CREDITS DURING THE PERIOD MAY 1ST TO DECEMBER 31ST, 1917

II. PAYMENTS TO THE BRITISH TREASURY

The British Government has centralized the purchases abroad of various supplies for the Allies, wheat, oats, sugar, fat, meat, etc. It has been estimated that the share of France in these supplies represents an average amount of $40,000,000 or $45,000,000 monthly. As long as statements of expenditure are not presented by the English Treasury, the French financial agency, at the request of the British Government, is making weekly transfers varying from $8,000,000 to $10,000,000.

Up to the present, no statement has been obtained.

The only information given to us is contained in a letter from Lord Reading, dated October 6th, pointing out that the balance due by the French Government at the end of July amounted to $8,833,619.28, and that the claim for August reached a sum of $43,419,123.10.

Since that date our requests for accountings have remained unanswered.

Date of payments:		*Amount*
May	9	$25,000,000.00
June	13	10,000,000.00
	23	10,000,000.00
	26	10,000,000.00
July	2	8,000,000.00
	9	8,000,000.00
	16	8,000,000.00
	23	8,000,000.00
	26	20,000,000.00
	30	8,000,000.00
August	6	8,000,000.00
	13	8,000,000.00
	16	4,000,000.00
	20	10,000,000.00
	27	10,000,000.00
September	4	10,000,000.00
	10	10,000,000.00
	17	10,000,000.00
	24	10,000,000.00

Date of payments—Continued.	*Amount*
October 1	$8, 000, 000. 00
5	8, 000, 000. 00
15	10, 000, 000. 00
22	10, 000, 000. 00
29	10, 000, 000. 00
November 5	10, 000, 000. 00
12	10, 000, 000. 00
19	10, 000, 000. 00
26	10, 000, 000. 00
December 3	10, 000, 000. 00
10	10, 000, 000. 00
17	10, 000, 000. 00
24	10, 000, 000. 00
31	10, 000, 000. 00
Total	331, 000, 000. 00

IV. PAYMENTS TO THE BANK OF FRANCE FOR EXCHANGE REQUIREMENTS

(*a*) Since the month of March 1917, all imports from abroad have been in principle prohibited. Exceptionally, authorizations are granted for the importation of material or products indispensable for the national defense.

The manufacturers or dealers, duly authorized, can obtain from the Bank of France, at the fixed rate of 5.70, the dollars necessary for the payment of the importations from the United States, on presentation of the corresponding documents.

The dollars needed by the Bank of France for that purpose have been transferred to it by the financial agency in New York on the following dates:

Date:	*Amount*
May 5	$2, 000, 000
14	2, 000, 000
15	5, 000, 000
21	5, 000, 000
28	5, 000, 000
June 7	5, 000, 000
15	10, 000, 000
23	8, 000, 000
July 6	10, 000, 000
16	10, 000, 000
26	10, 000, 000
August 6	8, 000, 000
16	8, 000, 000
27	8, 500, 000
September 6	10, 000, 000
17	10, 000, 000
26	10, 000, 000
October 6	10, 000, 000
16	10, 000, 000
26	10, 000, 000
November 7	10, 000, 000
16	10, 000, 000
26	10, 000, 000
December 6	10, 000, 000
17	10, 000, 000
26	10, 000, 000
Total	217, 000, 000

(*b*) Besides these transfers, the French financial agency has supplied the Bank of France with the dollars necessary for the payment at their maturity of the 90 d/s drafts drawn in September-October 1916, by a group of French bankers (Rothschild, Credit Lyonnais, Comptoir National D'Escompte, Heine and Cie, etc.) against a group of American bankers (Brown Brothers and Company, J. P. Morgan & Co., National Bank of Commerce, Guaranty Trust Company, Farmers' Loan and Trust Company, etc.) and maturing after three (3) renewals in September and October 1917, without any possibility of further renewal. This credit designated as "French Commercial Export Acceptance Credit" has been granted in order to provide exchange facilities for French purchasers of American commodities, and managed by Messrs. Brown Brothers and Company. It amounted to twenty-five million ($25,000,000) dollars.

Date of transfer:	*Amount*
September 5	$2,500,000
12	2,500,000
19	5,000,000
26	2,500,000
October 2	2,500,000
17	2,500,000
24	2,500,000
31	2,500,000
November 7	2,500,000
Total	25,000,000

(*c*) It appeared that the above transfers were not sufficient to meet all the requirements and that the Bank of France, not being able to supply the commerce with the necessary amount of dollars, many dealers, instead of buying dollars in France, were selling francs in New York, and thereby threatened to bring down the rate of francs on the rather narrow markets of New York.

The French financial agency, through the representative of the Bank of France in New York, had to intervene, during the months of August and September, in the open market in New York and buy, for account of the Bank of France, drafts in francs for an amount of $8,847,732.42. It seems rather difficult to furnish detailed adjustifications of this expenditure, represented by a considerable number of drafts.

General total for exchange:	
(a)	$217,000,000.00
(b)	25,000,000.00
(c)	8,847,732.42
	250,847,732.42

VI. PAYMENTS OF INTEREST, COUPONS, AND MATURED CREDITS

Date		Nature of the operation	Amount
May	2	Interest due to du Pont de Nemours Co. on the one-year Treasury bills given to this company by the French Government in payment for powder	$94,675.22
June	15	Interest due to du Pont de Nemours Co. on the one-year Treasury bills given to this company by the French Government in payment for powder	67,919.25
August	1	American Foreign Securities Company semestrial interest on $100,000,000	3,625,000.00
	15	Interest due to du Pont de Nemours Co. on the one-year Treasury bills given to this company by the French Government in payment for powder	68,487.60
October	1	Semestrial coupons of the second loan with neutral collateral ($100,000,000 5½%)	2,753,437.50
	10	Semestrial coupons—Loan of the city of Paris	1,501,875.00
	15	Semestrial coupons—Anglo-French loan	6,257,812.50
	16	Interest due on the industrial credit of $50,000,000 (Bonbright, November 11, 1916)	2,062,500.00
	22	Semestrial coupons—on the loans of the cities of Bordeaux, Marseilles, Lyon	1,081,350.00
November	17	Interest due to the American Government	8,170,863.04
		Total	25,683,920.11

(*d*) Payment to du Pont de Nemours, at their maturity, of the 1-year Treasury bills given to this company by the French Government in payment for powder delivered:

Date:	*Amount*
November 2	$3,881,683.82
December 15	2,784,774.05
	6,666,457.87

(*e*) Payment at maturity after three (3) renewals of the 90 d/s drafts, drawn by the firm Creusot (our chief manufacturer of guns), against an American syndicate, managed by Messrs. Bonbright & Co., in order to pay for the steel needed for the manufacture of guns and artillery munitions (total credit $45,000,000, of which $20,000,000 were reimbursed before May 1917).

Date:	*Amount*
May 26	$5, 000, 000
June 26	5, 000, 000
October 8	5, 000, 000
November 5	5, 000, 000
December 6	5, 000, 000
Total	25, 000, 000

General total:	
(a)	25, 683, 920. 11
(b)	6, 666, 457. 87
(c)	25, 000, 000. 00
	57, 350, 377. 98

VII. COMMISSIONS—SUNDRIES

This item refers especially to the commissions paid to Messrs. J. P. Morgan & Co.

Date:	*Amount*
May	$176, 908. 69
June	48, 496. 59
July	320, 596. 25
August	270, 711. 08
September	204, 679. 06
October	230, 607. 20
November	25, 813. 73
December	53, 714. 44
Total	1, 331, 727. 04

Payments of cotton.—(a) In regard to the purchases of cotton, effected by the French manufacturers or merchants before the centralization of cotton transactions into the hands of the French Government, the French financial agency, ignorant of the contracts, limited its intervention to the purchase of the drafts in francs connected with cotton transactions. The amounts of such drafts is as follows:

September	$6, 420, 763. 61
October	1, 979, 134. 39
November	3, 357, 527. 72
December	4, 394, 841. 86
Total	16, 152, 267. 58

It does not seem essential and it would not be practical to furnish a detailed account of these very numerous transactions. But the agency possesses certifications from the New York banks through which such drafts have been negotiated, that all of these drafts refer to cotton purchases.

(b) Since the French Government has taken over the purchasing of cotton, the payments are made in New Orleans, for account of the French Cotton Commission, by the Hibernia Bank and Trust Company.

From time to time, according to orders received from the technical departments, the French financial agency transfers funds to our depositaries in New Orleans, to the credit of the French Cotton Commission. These depositaries are: Whitney Central National Bank, Canal Bank, Commercial National Bank, Hibernia Bank and Trust Company. Out of the funds deposited in the first three banks, our agent in New Orleans maintains a sufficient deposit in the Hibernia Bank and Trust Company, which bank, alone, has charge of the payments.

Date of transfers to the French Cotton Commission	Bank to which the transfers have been made	Amount
November 24	Hibernia Bank & Trust Company	$1,000,000.00
26	----do	500,000.00
December 1	----do	1,000,000.00
5	----do	1,000,000.00
10	----do	1,000,000.00
11	----do	500,000.00
13	Whitney Central National Bank	1,000,000.00
13	Canal Bank	1,000,000.00
13	Commercial National Bank	500,000.00
26	Hibernia Bank & Trust Company	1,000,000.00
27	----do	1,000,000.00
27	Canal Bank	1,000,000.00
27	Commercial National Bank	500,000.00
	Total	11,000,000.00

During the months of November and December the operations of the French Cotton Commission were as follows:

Received		
Transfers from financial agency	$11,000,000.00	
Interest and sundries	2,538.44	
		$11,002,538.44
Expended		
Freight	$46,240.89	
Office expenses	6,252.88	
Payments for cotton:		
Harrys, Irby and Vos	874,690.56	
Humphrey and Co	353,101.66	
M. Levy and Son	4,090,456.23	
Weil Bros	457,535.90	
George H. MacFadden	621,300.29	
Anderson, Clayton & Co	764,354.79	
Southern Products Co	349,827.40	
Weld, Neville Cotton Co	858,871.97	
Storage and sundries	7,442.11	
Compressing	9,152.40	
		8,439,227.17
Surplus in existing banks		2,563,311.27
Whitney Central National Bank	250,000.00	
Canal Bank	500,513.79	
Commercial National Bank	250,345.21	
Hibernia Bank & Trust Co	1,562,452.36	
Total	2,563,311.27	
General total for cotton:		
(a)		16,152,267.58
(b)		11,000,000.00
Total		27,152,267.58

VIII. SUMMARY

(a) Advances received from the Treasury

Month	Amount
May	$100,000,000.00
June	110,000,000.00
July	160,000,000.00
August	160,000,000.00
September	160,000,000.00
October	130,000,000.00
November	150,000,000.00
December	160,000,000.00
Total	1,130,000,000.00

VIII. SUMMARY—Continued

(*b*) *Expenditures*

I.	Payments to the Commission for relief	$37,000,000.00	
II.	Payments to the British Treasury	331,000,000.00	
III.	Payments for paper for French newspapers	1,145,257.41	
IV.	Transfers to Bank of France for exchange requirements	250,847,732.42	
V.	Expenditures of the various French services in the United States	1,250,647.54	
VI.	Payments of interest, credits, coupons coming to maturity	57,350,377.98	
VII.	Commission and sundries	1,331,727.04	
VIII.	Payments for tobacco	9,640,000.00	
IX.	Payments for purchases made by the French railroad companies	5,194,003.75	
X.	Payments for ships purchased by French company	4,774,842.76	
XI.	Payments for cotton	27,152,267.58	
		114,003.74	800,860.22
XII.	Payments of the French commercial agency	355, ~~209,835.24~~	
			[1] $1,081, ~~896,691.72~~
	Surplus existing in the banks of New York, December 31, 1917		48,103,308.28

[1] Struck-through numbers were changed to figures immediately above them.

EXHIBIT No. 2885

French Government—Schedule of all expenditures from United States Government credits during the period of April 1 to April 30, 1918

II. PAYMENTS TO THE BRITISH TREASURY

Date:	*Amount*
April 2	$10,000,000.00
9	10,000,000.00
16	10,000,000.00
23	10,000,000.00
30	10,000,000.00
	50,000,000.00

IV. PAYMENTS TO THE BANK OF FRANCE FOR EXCHANGE REQUIREMENTS

Date:	*Amount*
April 6	$10,000,000.00
16	10,000,000.00
26	10,000,000.00
	30,000,000.00

VI. *Payments of interest, coupons, and matured credits*

Date	Nature of operation	Amount
	(a) PAYMENTS OF CREDITS	
April 14	90 days Treasury bills issued on October 14, 1917, and renewed January 14, 1918	$9,200,000.00
5	First part of the 4th series of the "Creusot" loan	5,000,000.00
		14,200,000.00

VI. *Payments of interest, coupons, and matured credits*—Continued

Date	Nature of operation	Amount
	(b) INTERESTS	
April 1	Half-yearly interest on the loan of $100,000,000 with neutral securities 5½% and commissions ⅛% (Morgan & Co.)	$2,753,437.50
5	Half-yearly coupons of the loan to the city of Paris with commission ⅛% (Kuhn Loeb)	1,501,875.00
15	Half-yearly coupons of the Anglo-French loan and commission ⅛ (Morgan)	6,257,792.47
22	Half-yearly coupons of the loans to the cities of Lyon, Marseille, Bordeaux (Kuhn Loeb)	1,081.350.00
	Total	11,594,454.97
		25,794,454.97

VII. *Commissions to Morgan & others*

Total	$143,764.56

XI. Payments for cotton—Provisions paid to our bankers in charge of buying the cotton drafts

Date	Bank	Amount
	(*a*) Purchases of cotton drafts (cotton purchased by private parties):	
April 16	Brown Brothers & Co	$500,000.00
22	J. P. Morgan & Co	1,000,000.00
23	Brown Brothers & Co	1,000,000.00
25	National City Bank	1,000,000.00
26	J. P. Morgan & Co	500,000.00
29	National City Bank	2,000,000.00
		[1] 6,000,000.00
	(*b*) Payments for account of the French Cotton Commission:	
April 5	Guaranty Trust Co. of N. Y	500,000.00
19	Canal Bank, New Orleans	800,000.00
19	Whitney Central National Bank, N. O	800,000.00
19	Commercial National Bank, N. O	400,000.00
		2,500,000.00
	Total	8,500,000.00

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[1] The exact amount of cotton drafts purchased was $5,812,920.40.

XIII. Summary

I.	Payments to the commission for relief	------------
II.	Payments to the British Treasury	$50,000,000.00
III.	Payments for paper for French newspapers	11,902.55
IV.	Payments to the Bank of France	30,000,000.00
V.	Expenditures of various public French services in the U. S	469,688.22
VI.	Payments of interest, coupons, and matured credits	25,794,454.97
VII.	Sundries	143,764.56
VIII.	Payments for tobacco	2,709,935.03
IX.	Payments for purchases made by the French railroad companies	1,283,283.22
X.	Payments for ships and freight	545,000.00
X.	(Vis.) Payments of various purchases	502,675.48
XI.	Payments for cotton	8,500,000.00
XII.	Payments made by the French Commercial Agency	41,480,814.42
		161,441,518.45

XIV. Cash balances

Balance available on March 31		$6,386,068.83
Received in April:		
(a) Advances	$95,000,000.00	
(b) Dollars transferred	54,092,368.00	
		149,092,368.00
Total		155,478,436.83
April expenditures		161,441,518.45
Difference paid out of our own funds		5,963,081.62

Exhibit No. 2886

French Government—Schedule of all expenditures from the United States Government credits during the period of March 1 to March 31, 1918

II. PAYMENTS TO THE BRITISH TREASURY

Date:	*Amount*
March 5	$10,000,000.00
12	10,000,000.00
18	10,000,000.00
26	10,000,000.00
	40,000,000.00

IV. PAYMENTS TO THE BANK OF FRANCE FOR EXCHANGE REQUIREMENTS

I. Transfers:

Date:	*Amount*
March 6	$10,000,000.00
16	10,000,000.00
26	10,000,000.00
	30,000,000.00

II. Purchase of drafts on francs for account of Bank of France during the last week of March in order to stabilize the exchange market:

Amount	[1] 1,939,677.30
Total	31,939,677.30

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[1] This sum represents the difference between the total amount of $5,000,000 transferred from our "general account" to our "exchange account," with the National City Bank and Brown Brothers, and the amount of $3,060,322.70 affected by the purchase of cotton drafts.

VI. PAYMENTS OF INTEREST, COUPONS, AND MATURED CREDITS

Date	Nature of operations	Amount
March 15	Reimbursement of French 1-year Treasury bill given to duPont de Nemours & Co. in March 1917, in payment for powder	$2,807,991.57
	Total	2,807,991.57

VII. SUNDRIES

Commissions to Morgan and others $38,834.96

XI. PAYMENTS FOR COTTON

1. Payments of cotton drafts (March)		$3,060,322.70
2. Payments for account of French Cotton Commission:		
March 6. Canal Bank & Trust Co. New Orleans	$900,000.00	
Whitney Central National Bank, N. O.	900,000.00	
Commercial National Bank, N. O.	200,000.00	
13. Ditto	300,000.00	
Whitney Central National Bank, N. O.	900,000.00	
Canal Bank & Trust Co., N. O.	800,000.00	
27. Ditto	600,000.00	
Whitney Central National Bank, N. O.	700,000.00	
Commercial National Bank, N. O.	200,000.00	
		5,500,000.00
Total		8,560,322.70

XIII. SUMMARY

I.	Payments to the Commission for Relief	$6, 000, 000. 00
II.	Payments to the British Treasury	40, 000, 000. 00
III.		
IV.	Payments for exchange requirements	31, 939, 677. 30
V.	Expenditures of the various French services in the U. S.	1, 134, 683. 21
VI.	Payments of interest and matured credits	2, 807, 991. 57
VII.	Sundries	38, 834. 96
VIII.	Payments for tobacco	1, 572, 887. 15
IX.	Payments of railroad companies	2, 850, 226. 82
X.	Payments of ships	350, 000. 00
X.	(vis.) Payments for various purchases	187, 476. 53
XI.	Payments for cotton	8, 560, 322. 70
XII.	Payments made by French Commercial Agency	44, 566, 488. 15
		140, 008, 588. 39

XIV. CASH BALANCE

Balance available on February 28		$16, 786, 980. 01
Received in March:		
(a) Advances from the Treasury	$90, 000, 000. 00	
(b) Equivalent of francs transferred	39, 607, 677. 21	
		129, 607, 677. 21
		146, 394, 657. 22
Expenditures in March		140, 008, 588. 39
Cash balance on March 31, 1918		6, 386, 068. 83

EXHIBIT No. 2887

French Government—Schedule of all expenditures from United States Government credits during the period of May 1 to May 31, 1918

II. PAYMENTS TO THE BRITISH TREASURY

Date:	Amount
May 7	$10, 000, 000. 00
15	10, 000, 000. 00
21	10, 000, 000. 00
28	10, 000, 000. 00
	40, 000, 000. 00

IV. PAYMENTS TO THE BANK OF FRANCE FOR EXCHANGE REQUIREMENTS

Date:	Amount
May 7	$10, 000, 000. 00
16	5, 000, 000. 00
27	5, 000, 000. 00
	20, 000, 000. 00

VI. PAYMENTS OF INTEREST, COUPONS, AND MATURED CREDITS

Date	Nature	Amount
	(A) REIMBURSEMENT OF CAPITALS	
May 2	Second part of the 4th serie of the Creusot loan	$5, 000, 000. 00
	(B) PAYMENTS OF INTEREST	
May 15	Interest due to the American Government	25, 099, 233. 50
16 31	Provisions with Brown Brothers & Co. for the payment of coupons of the French Internal Loan subscribed for in the U. S.	95, 000. 00
		30, 194, 233. 50

VII. COMMISSIONS TO MORGAN & OTHERS

Total in May ---- $72,869.58

XI. PAYMENTS FOR COTTON

Date	Bank	Amount
	(a) Purchase of cotton drafts (cotton purchased by private parties before November 1917):	
May 1	J. P. Morgan & Co	$500,000.00
6	ditto	500,000.00
13	ditto	1,000,000.00
17	ditto	2,000,000.00
17	National City Bank	1,000,000.00
22	ditto	1,000,000.00
		6,000,000.00
	(b) Payment for account of the French Cotton Commission	Nil
	Total	6,000,000.00

XI (VIS) PAYMENTS FOR SILVER PURCHASED BY FRENCH MINT

May 16	Brown Brothers & Co	$500,000.00
23	ditto	500,000.00
28	ditto	500,000.00
31	ditto	500,000.00
		2,000,000.00

XIV. CASH BALANCES

Advances received in May	$125,000,000.00
Total expenditures	168,301,253.44
Difference	[1] 45,301,253.44

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[1] Paid out of our own resources.

EXHIBIT NO. 2888

French Government—Schedule of all expenditures from U. S. Government credits during the period of June 1918

II. PAYMENTS TO BRITISH TREASURY

Date:	*Amount*
June 4	$10,000,000.00
11	10,000,000.00
18	10,000,000.00
25	10,000,000.00
	40,000,000.00

IV. PAYMENTS TO THE BANK OF FRANCE FOR EXCHANGE REQUIREMENTS

(a) Transfers to the Banque de France: June 25	$10,000,000.00
(b) Drafts in francs, other than cotton drafts purchased in New York for account of the Bank of France: June 6, Transfer to Brown Bros. & Co. and the National City Bank	[1] 1,000,000.00
	11,000,000.00

---

[1] In fact, all these drafts were purchased on June 6, when the rate of exchange rose suddenly about 5.70, and amounted to 5,650,000 francs or $091,240.21. The banlance remains in the banks in our special exchange account.

VI. PAYMENTS OF INTEREST, COUPONS, AND MATURED CREDITS

Jan. 3, Third and last part of the 4th serie of the Creusot loan ---- $5,000,000.00

VII. COMMISSIONS TO MORGAN & OTHERS

Total in June ---- $47,119.70

XI. PAYMENTS FOR COTTON

(A) Purchase of cotton drafts:	
June 6 transfer to National City Bank	$1,000,000
6 transfer to J. P. Morgan & Co	1,000,000
10 transfer to J. P. Morgan & Co	500,000
14 transfer to J. P. Morgan & Co	1,000,000
21 transfer to J. P. Morgan & Co	1,000,000
	[2] 4,500,000
(B) Payment for account of the French Cotton Commission: June 4 payment to the Guaranty Trust Co., N. Y	150,000
General total	4,650,000

[2] In fact the cotton drafts purchased in June amounted to 25,000,000 francs or $4,379,624.14. The balance remains to our credit in the banks in charge of purchasing the cotton drafts for our account.

XI (BIS). PAYMENTS FOR SILVER PURCHASED BY THE FRENCH MINT

Transfer to Brown Brothers & Co. silver account June 1st	$4,600,000.00
Withdrawn from this account June 18th	3,600,000.00
Net payment	1,000,000.00

XIII. SUMMARY

I.	Payments to the Commission for relief	$4,000,000.00
II.	Payments to the British Treasury	40,000,000.00
III.		
IV.	Payments to the Bank of France	11,000,000.00
V.	Expenditures of various public services in the U. S.	758,731.45
VI.	Payments of interest, coupons, and matured credits	5,000,000.00
VII.	Commission to Morgan and others	47,119.70
VIII.	Payments for tobacco	2,226,367.04
IX.	Payments for purchases made by the French railroad cos	706,710.76
X.		
X (bis).	Payments for various purchases	279,216.25
XI.	Payments for cotton	4,650,000.00
XI (bis).	Payments for silver purchased by the French Mint	1,000,000.00
XII.	Payments made by the French Commercial Agency	45,134,772.91
	Total	114,802,918.11

CASH BALANCE

Advances received in June	$30,000,000.00
Total expenditures	114,802,918.11
Difference (paid out of our own resources)	84,802,918.11

EXHIBIT No. 2889

WASHINGTON, *June 22nd, 1918.*

French financial agency

	Million
Cash holdings on Saturday, 22nd June	34
Certificates maturing July 9th and 18th affected to the reimbursement of the French Industrial credit (50 millions)	50
Total	84
Cash available for immediate payments	34
Estimates of expenditures for the next week (24–29):	
Bank of France (first transfer for June)	10
English Treasury	10
Various expenditures (commercial agency, railroads, tobacco, cotton)	12
C. R. B	3
	35

An advance minimum of 30 millions will be necessary for Monday or Tuesday.

From May 31st to June 22nd there has been received for transfers $121,057,109.36 (cash or certificates altogether).

$20,000,000 June 25 }
10,000,000 June 27 } to be advanced.

A.R.

(Pencilled notation)

EXHIBIT No. 2890

JULY 9, 1918.

MEMORANDUM OF U. S. ADVANCES TO FRANCE DURING JULY 1918

The following figures on the assumption that no reimbursements for U. S. Army expenditures in France will be paid after July 8, 1918:

July 8	Bank balance		$49,000,000
	U. S. Army reimbursement	$17,000,000	
	U. S. Treasury certificates maturing	31,000,000	
			48,000,000
			97,000,000
July 9	Payment to British	$10,000,000	
11	Maturities	50,000,000	
	Disbursements for week	15,000,000	
			75,000,000
July 15	Bank balance		22,000,000
July 16	U. S. advance	20,000,000	
	U. S. Treasury certificate maturing	19,000,000	
			39,000,000
			61,000,000
July 16	Payment to British	10,000,000	
	Payment to Bank of France	5,000,000	
	Disbursements for week	15,000,000	
			30,000,000
July 22	Bank balance		31,000,000
July 23	U. S. advance	15,000,000	
July 25	U. S. advance	15,000,000	
			30,000,000
			61,000,000
July 23	Payment to British	10,000,000	
	Payment to Bank of France	5,000,000	
	Disbursements for week	15,000,000	
			30,000,000
July 29	Bank balance		31,000,000

U. S. advances planned to be made

July 16	$20,000,000
" 23	15,000,000
" 25	15,000,000
	50,000,000

EXHIBIT No. 2891

French Government—Schedules of all expenditures from United States Government credits and from other credits involving purchases in the United States during month of July 1918

II. PAYMENTS TO THE BRITISH TREASURY

Date:	Amount
July 3	$10,000,000.00
9	10,000,000.00
16	10,000,000.00
23	10,000,000.00
30	10,000,000.00
	50,000,000.00

IV. TRANSFERS TO THE BANK OF FRANCE FOR EXCHANGE REQUIREMENTS

Nil.

VI. PAYMENTS OF INTEREST AND MATURED CREDITS

July 11th French industrial credit	$50,000,000.00

VII. SUNDRIES

Commission to Morgan	$158,822.09

XI. PAYMENTS FOR COTTON

I. Payments for account of the French Cotton Commission:	
July 31 Transfer to Hibernia Bank, N. O	$300,000.00
" " Canal Bank, N. O	100,000.00
" " Whitney Central Bank N. O	100,000.00
	$500,000.00
II. Purchases of cotton drafts:	
July 11 Transfer to our special account with J. P. Morgan & Co	$750,000.00
20 Ditto	1,000,000.00
20 Transfer to our special account with National City Bank	500,000.00
	$2,250,000.00
Total	$2,750,000.00

XIII. SUMMARY

I	$6,000,000.00
II	50,000,000.00
III	----------
IV	----------
V	727,393.99
VI	50,000,000.00
VII	158,822.09
VIII	2,158,331.30
IX	1,902,257.91
IX (bis)	977,291.41
X	26,500.00
X (bis)	19.72
XI	2,750,000.00
XII	56,936,908.48
Total	$171,637,524.90

XIV. CASH BALANCE

Advances received in July	$105,000,000.00
Expenditures	171,637,524.90
	$86,637,524.90

Exhibit No. 2892

Memorandum of obligations outstanding March 18, 1918, of allied governments payable in the United States taken in part from tabulation in file "Allied financial operations in United States"

I. BRITISH AND FRENCH JOINT OBLIGATIONS

	Amount	Rate	Maturity	Security
1. Anglo French Loan	$300,000,000	5%	October 15, 1920	None.

II. BRITISH OBLIGATIONS

1. Two-year notes	$194,688,000	5%	September 1, 1918	
2. Treasury notes, Bethlehem	27,600,000	5%	February 1, 1919	
3. Two-year notes	143,654,000	5½%	February 1, 1919	
4. Treasury notes (Bliss)	2,225,000	5%	April 2, 1919	
5. Treasury notes (Marlin)	1,953,561	5%	April 30, 1919	
6. Treasury notes	1,100,000	5%	July 14, 1919	
7. Treasury notes (Remington)	27,332,000	5%	October 21, 1919	
8. Five-year notes	131,117,000	5½%	November 1, 1919	
9. Five-year notes	131,589,000	5½%	November 1, 1921	
10. Overdraft demand loan				
Total				

III. FRENCH OBLIGATIONS

1. Credits Creusat	$5,000,000		April 10, 1918	
2. Treasury bills—St. Louis-Frisco	9,200,000		April 15, 1918	
3. Credits Creusat	5,000,000		May 10, 1918	
4. Credits Creusat	5,000,000		June 10, 1918	
5. Industrial credits	50,000,000		July 16, 1918	French Treasury securities $50,000,000 & neutral securities $10,000,000.
6. Secured securities	100,000,000	5½%	April 1, 1919	American neutral securities $120,000,000.
7. First operations in neutral securities	100,000,000	7¼%	July 31, 1919	American neutral securities $120,000,0000.
8. Cities of Lyons, Marseilles, and Bordeaux loan.	36,000,000	6%	November 17, 1919	None.
9. City of Paris loan	50,000,000	6%	September 27, 1921	None.
Total				

IV. RUSSIAN OBLIGATIONS

1. Treasury notes	$11,000,000	5%	April 1, 1918	
2. Credit	50,000,000	6½%	June 1919	150,000,000-rouble credit.
3. Treasury notes	25,000,000	5½%	December 1, 1921	
Total	86,000,000			

V.

Italy, none.
Serbia, none.
Belgium, none.

EXHIBIT NO. 2893

HAUT COMMISSARIAT DE LA REPUBLIQUE FRANCAISE,
1954 Columbia Rd. NW., Washington, D. C., April 18, 1918.

(*The High Commissioner of the French Republic to the Hon. R. C. Leffingwell, Assistant Secretary of the Treasury, Washington, D. C.*)

[Translation]

DEAR MR. LEFFINGWELL: My Government has just called my attention to various points which it requests me to submit to your consideration, and the importance of which to the common cause of the Allies, you will readily see.

1. My Government informs me that the bonds of the French cities, Marseilles, Lyons, Bordeaux, issued in the United States in 1916 by the firm of Kuhn, Loeb & Co., are now being sold in large quantities in Holland for American account. These sales are competing with the efforts of the French Government to secure credits from banks in Holland; you know that my Government is in imperative need of these credits for the defense of its exchange and for the payment of the Dutch products indispensable to it. It is becoming more and more difficult for my Government to call on available Dutch capital, since the latter finds other investments as favorable as those of the loans of the French cities, payable in dollars and negotiated by American bankers or capitalists at about 87 percent of their face value. It is precisely for such reasons that I have, on various occasions, pointed out to your Department the importance, moral as well as material, for my Government to be able to employ, for the partial redemption of these securities, a part of its own funds, outside of any advances from the Treasury, funds which it receives from the United States, in payment of war material sold to the American Army, or as equivalent for francs put at your disposal. I am sure that you will grasp the considerable advantage and ultimate economy for both our Governments which would result from an agreement for the purpose of redeeming, at least partially, at advantageous rates, loans which have to be paid off at par in 1919, and the presence of which on the market, leads to regrettable combinations at the same time that it creates, by their low market prices, an unfortunate precedent.

On the other hand, I feel confident, that you will be disposed to study what steps should be taken to curtail the exportation of these securities to neutral countries, where they hamper the financial activities of my Government, and where they may give our enemies an opportunity of obtaining dollar credits very cheaply.

2. My Government requests me also to point out to you that every day it is getting more difficult to obtain in neutral countries, as for instance, Switzerland, Spain, Norway, the credits which are absolutely necessary for the carrying on of the war, because it lacks the neutral or American securities to be pledged. All the foreign securities which my Government could gather, at very high costs, have been remitted to American banks as collateral for the loans obtained in New York before the entry of the United States into the war. It would seem that there is an unquestionable common interest in being able, from time to time, as circumstances may require, to withdraw from this collateral the securities which would enable us to obtain credits at such and such a place, and I think that by granting us the authorization to release part of the securities in question (by means of the funds received from you, not as an advance, but as payment for value received) the Treasury will but permit the French Government to use its own money for the benefit of the common cause.

I dare to hope that you will recognize the advantages of the above suggestions, and I shall be obliged to you if you will be good enough to let me know your opinion on this subject.

[s] ANDRE TARDIEU.

NOTE REGARDING TRANSLATION OF MR. TARDIEU'S LETTER OF APRIL 1918

The translation furnished by the French Mission is a very poor one.

Sales of this kind come out unfortunate competition with the French Government which, for the protection of exchange and for payment for Dutch supplies indispensible to the French Government and the C. R. R. is actively seeking to open credits with Dutch bankers. It becomes difficult for my Government to interest in these credit operations available Dutch capital if such capital can find elsewhere opportunities of investment as favorable as those afforded by the offer of obligations of the French cities, payable in dollars, guaranteed by the same French Government and dealt in at the present time by American bankers and capitalists at about 87% of their nominal value.

(The whole sentence beginning "I am sure that" is not in the original.)

[Pencilled note: This should be attached to translation of letter of April 18 from Mr. Tardieu.]

EXHIBIT No. 2894

APRIL 25, 1918.

Mr. ANDRE TARDIEU,
French High Commissioner,
1954 Columbia Road NW., Washington, D. C.

DEAR MR. TARDIEU: I have received your letter of the 18th instant in relation to the bonds of the three French cities and the Spanish securities deposited under the pledge agreement pursuant to which certain obligations of your Government have been issued.

I had understood that the question of anticipating maturity of these obligations had been, after careful consideration, settled by your correspondence with the Secretary of the Treasury on the subject. I shall, however, upon the return of the Secretary, place before him your letter.

I am, my dear Mr. Tardieu,
Very truly yours,

/s/ R. C. LEFFINGWELL.

EXHIBIT No. 2895

APRIL 25, 1918.

JOSEPH SIMON, Esquire,
c/o The French High Commission,
2003–2005 Columbia Road NW., Washington, D. C.

DEAR MR. SIMON: I return herewith the list which you handed me some days ago of certain securities of the French Government pledged to secure its obligations under the first and second loan operations. I have retained copy of this list. I will be much obliged if you will furnish me with copies of the agreements under which these obligations were issued and providing for the control of the pledged securities.

Very truly yours,

/s/ R. C. LEFFINGWELL.

(Enclosure.)

EXHIBIT No. 2896

[Telegram]

PARIS, *June 9, 1918.—11 p. m.*

(G. Clemenceau, President of the French Cabinet, to the Hon. Wm. G. McAdoo, Secretary of the Treasury, Washington, D. C.)

[Translation]

I am calling upon you personally at the most critical times of the war, in order to ask a financial assistance, just as indispensable to victory as the military assistance which your country is giving us so generously.

France, on account of being the battlefield, is at present in a peculiar financial position.

Not only has its productive capacity diminished by more than one third, but furthermore, the French currency (practically reduced now to paper money) must suffice not only for the French needs but also for those of the Allies because the allied armies are fighting on her soil and are each day spending more and more money there.

Millions of allied consumers are in France and our monetary system has to bear the burden.

Because of this the amounts in francs which the French Treasury has placed at the disposal of the Allied Governments have reached the sum of 460 million for the month of April, of which 310 million were for the American Army, and 940 million for May, of which 750 million were also for the American Army. For the first six days of June the cessions of francs to the American Army amount to 220 millions.

It is in order to remedy this double situation, financial and monetary, that I appeal to you. I am sure that you will understand me.

I beg to make the two following requests:

First request: The High Commission is negotiating with you for the purpose of discriminating between on one side the sums which are advanced to us by the American Treasury and which must be repaid after a period of time, and on the other side, the sums proceeding from the cessions of francs corresponding to the expenses of the American Army in France.

I have no doubt that in your high spirit of equity, you would be disposed to grant this request, founded on the spirit of justice and loyalty which has always animated the American nation in her relations with France.

I request you, according to our previous suggestions and on the conditions which you would deem necessary to adopt, to put at the disposal of the French Treasury, in the form of a current account, the sums equivalent to our cessions to the American Government, it being understood that, for the duration of the war, the actual drawings would only take place under the conditions which have been indicated to you, and on which the French Government is ready to accede in the largest way possible, to your wishes.

The current account which would represent and be the recognition of the debt of the United States to France, would give in the future a new strength to our finances.

Second request: This first request is of a general order. I consider it as essential, but it would not permit us by itself to meet the difficulties of the situation.

Our monetary inflation has become a social and financial peril of the utmost gravity. We have only one means of reducing our circulation and that is to issue a new loan without delay.

It is indispensable that on the eve of this loan the proportion between our cash on hand and our money in circulation be notably increased.

Our gold reserve, which, at the beginning of the war, was 4,141,000,000 francs for a circulation of 6,683,000,000 has today fallen to 3,450,000,000 actually disposable for a circulation of more than 28,000,000,000, and yet, during this same period, the concentration in the coffers of the Bank of France of the gold savings of the country, supplied 2,300,000,000.

This situation results partly from the fact that, during the period of American neutrality, we sent to the United States by way of England, 2,820,000,000 francs in gold.

Appreciating at their full value the many difficulties which weigh upon you, we are not asking your for an actual return nor even a definitive retrocession of this gold. We only ask, under the pressure of necessity, that you help us to find an absolutely indispensable assistance.

It would be a question of—

(A) Depositing this amount in gold in a bank of the Federal Reserve System, to the credit of the Bank of France, against an equal previous deduction in our cession account.

(B) Our agreeing to employ this gold for our purchases in the United States after the war, or, if you prefer, our putting this gold purely and simply at the disposal of the Federal Government, when our monetary circulation will have come down after the war to a level upon which we have to agree.

What is indispensable to our public opinion at the time when we must float a loan in the conditions in which we find ourselves, is for America to open her arms to us, thus affirming her financial solidarity as she has already affirmed her military solidarity.

If you should judge that the operation bearing on the totality of our gold shipments to America would be too heavy at the present time, the consignment under the same conditions of a part of this sum (1,000,000,000) would answer our immediate needs and the rest of the operation could be made by installments.

Conclusion: I address myself to you in my capacity of head of the Government; for, it is a question of direction of the war. It is important for the security of your troops as well as for that of ours that the credit and the currency of France hold as well as does her Army.

You wanted, as well as we did, unity of command. We need unity of financial action. The second is as necessary as the first, for it is, I reiterate, because the fighting is taking place on our soil, that we are menaced with a crisis of the fiduciary circulation. I beg you to study, with the President, my appeal and give me an answer at the earliest possible moment. It is not a question of sending out of America a single ounce of gold, but only of sustaining—by an assertion of solidarity, corresponding at least partially, for the present, to the amount of

French gold sent to America—the French banknote, which is the common currency of all the Allied Armies.

We are facing a terrible situation and you will make a great effort to help us, because are cause is yours. Of course, I am conscious that I am not asking for anything which is not just and which is not of absolute necessity; I appeal to your sense of justice and to your will to vanquish.

/s/ CLEMENCEAU.

EXHIBIT No. 2897

TREASURY DEPARTMENT,
Washington, July 3, 1918.

The PRESIDENT,
The White House.

DEAR MR. PRESIDENT: I have the honor to enclose herewith draft of a communication proposed to be made by the Secretary of the Treasury to Mr. Clemenceau in further answer to his cable dated June 9, 1918, and which has already been submitted to you by Secretary McAdoo. Discussions with the Deputy High Commissioner of France have resulted in conclusions on the part of Mr. Leffingwell and myself that are expressed in the proposed draft.

In section six of that draft are set forth the substanital features of the proposition which we think justifiable in the present circumstances.

Compilations recently made by General Pershing's purchasing department and received by cable yesterday indicate that our expeditionary forces have already spent something more than 4,000,000,000 francs, to be covered by corresponding advances from the French Government, and further that the probable expenditure of our Army up to January 1, 1919, in France, including the amount above mentioned, will be from 8,000,000,000 to 10,000,000,000 francs.

During the past four months the expenditures of the French Government covered by United States advances, and by the amounts received from the United States in reimbursement of our Army expenditures in France, averaged about $150,000,000 per month.

The matter is respectfully submitted for such action as you may desire to take.

I am,
Cordially yours,

/s/ OSCAR T. CROSBY,
Acting Secretary of the Treasury.

Enclosure.

EXHIBIT No. 2898

(The Secretary of the Treasury to the President of the French Cabinet)

I

The situation presented by the message of the President of the French Cabinet dated June 9, 1918, has been given careful study and consideration both as to the needs of the Republic of France and ability of the United States to meet its own war needs and the calls for financial aid which it has received from the Allied Governments. With the approval of the President of the United States the Secretary of the Treasury places before you his views as follows:

II

The method in effect of dealing with the amount in dollars receivable by the French Government in reimbursement of the expenses of the United States Army in France was adopted after a number of conferences with the representatives of the French Government, and is embodied in a letter dated March 11, 1918, from the Secretary of the Treasury to Mr. Andre Tardieu, the French High Commissioner, and confirmed by him by letter dated March 13, 1918. This arrangement was entered into after mature consideration by both sides, and embodies a concession by the Secretary of the Treasury that he was reluctant to make and was received by the representatives of the French Government with expressions of cordial appreciation. The arrangement made is quite similar to that in force between the French and British Governments respecting the expenditures of the British Army in France, between the British and United States Governments respecting the expenditures of the United States Army in Great Britain, and between the United States and the Italian Governments respecting the expenditures of the United States Army in Italy. Under this arrangement the amounts advanced by the United States to France (but not exceeding the amount of the reimbursements for the expenditures of the United States Army in France) may be used not only to pay, when due, the obligations of the French Government payable in the United States, but also for other like cash requirements of the French Government in the United States. After a reconsideration of the matter the Secretary of the Treasury is unable to change his views that the existing arrangement is eminently fair. The United States continues to loan to France for her purchases in this country all the dollars needed and for which no dollar funds are available in France; but the Secretary of the Treasury does not feel that he can sanction advances of dollars to an Allied Government while it has dollar funds available.

III

Even though gold from France reached the United States by way of England when the United States was at peace with the world to meet payments due in the United States, this would not constitute in the opinion of the Secretary of the Treasury any reason for the return to France of the gold thus used for its purposes.

Since the United States entered the war the commodities within its territory needed by France have been purchased out of funds which thereafter, but not before, could legally be supplied by the United States Government and these requirements of France as well as those of other Allied Governments have been in part supplied by the United States Government through the shipment or pledging of its gold to neutral countries in a very considerable amount. As an instance, the gold sent from the United States to Spain, approximating $100,000,000 in amount, was doubtless in considerable part required by French purchases in Spain.

IV

The financial demands upon the United States are now enormous. The raising, equipping, and maintaining on the battlefields the large bodies of troops which have already gone forward and are now in the course of preparation for active service alone means an expenditure of billions of dollars and the gathering of commodities from all parts of the world. The increase in size of our Navy and the active duty to which it has been assigned represents another large item. The construction of the tonnage so needed for the common cause is a further drain upon our resources. The Treasury has at all times stood ready to supply the funds needed by the Allied Governments to purchase food and other commodities in the United States. The Secretary of the Treasury feels assured that so far as the United States advances are expended for available services and commodities in the United States the United States Government can meet the financial problem which it confronts because the money thus spent flows back to the people of the country just as the francs placed at the disposal of the United States Army in France ultimately return to the people of France. The purchases in neutral countries for the United States Government and its people and for the Allied Governments and their nationals either directly, through exchange operations, or for materials purchased in neutral countries by the United States and later sold to Allied Governments in exchange for their obligations present a different problem and one, the solution of which is giving the Secretary of the Treasury grave concern. The heavy favorable balance of trade of the United States with the world, after eliminating the commodities purchased by the Allied Governments from the United States credits, becomes in effect a heavy balance of trade against the United States. In these circumstances, and in view of the need for the common good of conserving the credit and the resources of the United States, the Secretary of the Treasury is forced to the conclusion that the United States cannot prudently part with its gold resources for the purposes set forth in the message of the President of the French Cabinet.

V

The Secretary of the Treasury most sympathetically notes the apprehensions of the President of the French Cabinet of the gravity of the financial situation due to the increased issue of banknotes in France, and fully appreciates the serious consequences which might result from a depreciation in the French banknotes. He feels constrained, however, to call attention to the internal assistance already furnished the Government of France by the United States Government through advances made to finance the purchases outside of France of French nationals, and the purchase of foodstuffs by the French Government sold to its nationals. These transactions necessarily resulted in placing a corresponding amount of francs at the disposal of the French Government. The silver purchased by the French Government from the United States advances has furnished coin for circulation in France.

While the assistance which may be furnished by the United States to remedy the existing financial situation in France has not yet received the exhaustive study contemplated by the Secretary of the Treasury, yet, in order to aid the French Government in meeting the conditions presented as an emergency the Secretary of the Treasury is prepared immediately to establish in favor of the Government of France against its obligations in a corresponding amount, a special credit in dollars to an amount equivalent at the present rate of exchange to one billion francs, to be made available and dealt with in such manner as shall be agreed upon between the Secretary of the Treasury and the representatives of the Republic of France, and the Treasury Department awaits the convenience of the representatives of France to arrange these details.

In view of the importance of the matter presented, the Secretary of the Treasury has brought it to the attention of the British Government, but because of its urgency he is prepared to establish the special credit above mentioned without awaiting any advice from the British Government as to its willingness to participate therein. In case the British Government shall undertake to provide a portion of the said special credit, or, in case dollar funds shall become available to the French Government in excess of its current cash requirements in the United States, the amount of said special credit is to be diminished by a corresponding amount and any dollar funds so available shall pro tanto take the place of such credit under precisely the same arrangements as those to be fixed in respect thereof.

The WHITE HOUSE.
Approved 3 July, 1918.
[s] WOODROW WILSON. [s] W. G. MCADOO.

EXHIBIT NO. 2899

[Translation of a telegram from Mr. Tardieu to Mr. De Billy]

MEMORANDUM

PARIS, *July 20, 1918.*

(1) The following is meant to give you all the details pertaining to the answer which you have been requested to transmit from Mr. Klotz to Mr. McAdoo and to show you our state of mind;

(2) As you expected, the answer has caused a great deception. In fact, it appears that the United States Government does not conceive exactly neither the enormous and every increasing difficulties of our money circulation, nor the unique situation that, after four years of immense sacrifices, our being the battlefield has created for us.

(3) Under these conditions the offer of 200 million dollars made a painful impression at the Ministry of Finances: Firstly, because it did not even meet the increase in our money circulation for the last three months, due to our transfers to the United States (more than 2,000,000,000 francs); secondly, because it looked a little like an emergency help and not like a fair arrangement; and lastly, because without consulting us previously, the question had been submitted to the British representative. The first impulse was accordingly to refuse cordially and to say that we wanted to wait for the arrival of Mr. Crosby;

(4) I succeeded in having this point of view abandoned, not because I did not recognize the value of the above argument but for two reasons: First, because I am convinced that, in spite of their insufficient understanding of our situation and unfortunate errors of form, we have the good and sincere will of the Treasury and a refusal would have hurt them in the friendly sentiments which they bear us; second, because I see in the present operation, in spite of its imperfection, the first step in a way in which the fairness of the Federal Government will induce them to follow us. We cannot be asked to go to the doom of our money circulation through transfers of which the counterpart would not appear anywhere in the statement of the Bank of France. The ministry as well as Mr. Clemenceau have accepted my point of view and a cable was sent which, with moderation but sincerely, shows our state of mind.

(5) We shall keep you posted on all our interviews with Mr. Crosby.

On your side—

(a) Ask the Treasury not to communicate anything to the press until further notice;

(b) Make the Treasury understand, in a friendly way, but firmly, that these negotiations do not concern the other Allies and that they cannot reasonably be mixed with them without our agreeing to it.

(c) Use our precediug cable for your negotiations, so as to show sincerely the state of mind exposed above.

Exhibit No. 2900

[Translation of a cable from Mr. Klotz to Mr. de Billy]

July 20, 1918.

We note with pleasure the indications gathered by Mr. Simon from his conversation with Messrs. Crosby and Leffingwell regarding the willingness of the Treasury to open additional credits in our favor, for the purpose of paying off before maturing a part of our loans in the United States.

Evidently this is a slightly different proposition from the one set forth by Mr. Clemenceau to Mr. McAdoo. However, the addition of a special credit sufficient to pay off our two secured loans (American foreign securities and loan of April 1917) to the credit of two hundred million dollars which the Federal Government recently offered to us, would in fact make a total approximately equal to the counterpart of the francs transferred so far to the United States Army.

On the other hand, the withdrawal of our collaterals could help us considerably to obtain new credits in neutral countries. Such a result, although it would not be as far-reaching as the measures suggested by Mr. Clemenceau, would be very interesting and would to a certain extent work for the protection of the franc, the same way as an increase of the metal reserve behind our currency.

We could thus look upon the opening of those credits as a real satisfaction given to that part of our demand which covers the past. There would remain to study with the U. S. Government the means of averting during the next few months the danger of a tension of our fiduciary circulation, resulting from the very increase of the American forces in France.

You can, consequently, in your conversations with Mr. McAdoo and Mr. Leffingwell, state very clearly that the new dispositions evidenced by them regarding the paying off of our banking credits have been received here in the most favorable way and fully appreciated, inasmuch as we have always considered the measures contemplated today by the U. S. Treasury as being in accordance with our common interest.

Exhibit No. 2901

[Pencilled memo: If it is decided to send this letter a clause should be added tying up future receipts by French from Army reimbursements in excess of current requirements to repayment. A. R.]

Treasury Department,
Office of Assistant Secretary,
July 22, 1918.

My Dear Mr. de Billy: You will recollect the talk which Mr. Crosby and I had with Mr. Simon the early part of this month in relation to the situation in France presented to the attention of the Secretary of the Treasury by Mr. Clemenceau's message of ——. In the course of this conversation it was suggested that if the Secretary of the Treasury assented to the immediate use of some part of the United States advances to your Government for purchasing in the market or otherwise anticipating the maturity of some of the outstanding obligations of the French Government maturing during the year 1919 it might have a favorable effect upon the situation under discussion in relation to the outstanding notes of the Bank of France. While obviously retiring obligations of your Government payable in United States in advance of their due date would not affect the amount of the Bank of France notes outstanding nor the security held therefor, yet the psychological effect of such action upon the public ought to be favorable, and if the neutral securities held as collateral for such obligations were used in such a manner as to improve the position of the franc as against certain neutral currencies it should serve to maintin public confidence.

I now understand from Mr. Simon's talk with Mr. Rathbone on the 20th instant that it is the opinion of your Government that an operation of this character would be advantageous. It seems to me that for the present, at least, our attention should be directed to the obligations of your Government, issued under the first and second operations in neutral securities, both because these are the next maturing obligations of your Government in this country and because there are pledged to secure the same securities of neutral countries. I think it would be wise to commence these operations by purchases of these obligations in the open market, and if these securities are now selling on the basis of interest yield it ought to be possible to purchase considerable amounts thereof without advancing the quotations. You will, of course, appreciate that it is of some concern to the Treasury how rapidly funds are used for the purpose of retiring, by purchase or otherwise, the securities above mentioned, and I suggest that at the outset the operation be limited to the expenditure of not exceeding $50,000,000. When this money has been expended for the purpose I shall be pleased to confer with you as to the best method of continuing the proposed operation.

If it is the wish of your Government to undertake such operation at this time you may consider the arrangement embodied in Secretary McAdoo's letter to Mr. Tardieu of March 11th and Mr. Tardieu's reply of March 13th as modified to the following extent, namely: That United States advances to your Government up to $50,000,000 may be used in the purchase in advance of their maturity, at not exceeding par, of notes of your Government issued and outstanding under the first and second operations of your Government in neutral securities and maturing respectively April 1 and July 31, 1919. It is understood, of course, that the notes so purchased shall be forthwith cancelled. I should like to be kept informed of the progress made in purchasing these obligations, and should expect that the security held for these issues should not be withdrawn without previous consultation with this Department.

I am, my dear Mr. De Billy,

Very truly yours,

——— ———.

Mr. Edouard de Billy,
Acting French High Commissioner,
1954 Columbia Road NW., Washington, D. C.

Exhibit No. 2902

August 14, 1918.

Mr. Edouard de Billy,
French Deputy High Commissioner.

Dear Mr. de Billy: Referring to my message to the President of the French Cabinet transmitted to you on July 8, 1918, and to your letter of July 17, 1918, transmitting the translation of a telegram from Mr. Klotz, I take pleasure in advising you that in accordance with said message and for the purpose therein indicated, a special credit has been established in favor of your Government in the sum of $200,000,000 to be made available against the execution of obligations of your Government in a corresponding amount and to be dealt with as follows:

This credit will be opened on the books of the Treasurer of the United States and, unless earlier availed of with my consent, will be held by the Treasurer of the United States until the proclamation of the President of the United States declaring peace, and thereafter it may be used to purchase commodities, other than gold, in the United States.

Arrangements will be made for the remission of interest on the obligations of your Government above referred to so that interest thereon will be collected only upon such amounts thereof as are actually paid out and only from the dates of such payments.

In accordance with my message above referred to, in case the British Government shall undertake to provide a portion of the said special credit, or in case dollar funds shall become available to the French Government in excess of its current cash requirements in the United States, the amount of said special credit is to be diminished by a corresponding amount and any dollar funds so available shall pro tanto take the place of such credit under precisely the same arrangements as those fixed in respect thereof.

I am, my dear Mr. de Billy,

Cordially yours,

[S.] W. G. McAdoo.

EXHIBIT No. 2903

[Pencilled note in margin: July 26/18—Mr. Rathbone, I think we should telegraph Klotz message to Crosby & ask his advice. R. C. L.]

HAUT COMMISSARIAT DE LA REPUBLIQUE FRANCAISE,
1954 Columbia Road NW., Washington, D. C., July 24, 1918.

(*The High Commissioner of the French Republic, to the Hon. R. C. Leffingwell, Assistant Secretary of the Treasury, Washington, D. C.*)

MY DEAR MR. LEFFINGWELL: Referring to the conversation which Mr. Simon and Mr. Bloch had with Mr. Rathbone, this morning, I beg to enclose herewith a translation of a cable received from the French Minister of Finances.

As you will see the French Minister is considering paying off before maturity the collateral loans made by the French Government in the United States.

If the conditions under which the loans have been made do not actually permit of their being paid off, as contemplated by Paris, it seems to me, nevertheless, that there are other means of obtaining a similar result, that is to say the release of the collateral securing the loans.

One of these means would be to purchase in the market as many bonds as could be secured at reasonable prices and have these bonds cancelled according to the loan agreements against the release of a corresponding amount of collateral.

Another solution would be the substitution of United States Government securities for the collateral now securing the loans. In fact both these procedures could be used simultaneously to great advantage.

While remaining with my collaborators entirely at your disposal for any further consideration of this matter, I am, my dear Mr. Leffingwell,

Very truly yours,

[s.] BILLY.

EXHIBIT No. 2904

[Pencilled note in margin: Apr. 1, '19, Anglo Fr. Loan?]

SEPTEMBER 4, 1918.

In view of the arrangements hitherto made with your Government and embodied in Mr. Leffingwell's letter to Mr. Simon of December 3, 1917, and Mr. de Billy's reply of December 27, 1917, by which my Government is assured of the continued supply of francs by your Government to meet its army expenditures in France, I am willing to consent to the present use of the advances to your Government to the purchase and redemption in dollars at not exceeding par and accrued interest of the obligations of your Government which mature respectively ——— and ——— and designed as the two operations in neutral securities to the aggregate principal amount of $200,000,000. The possibility of my consenting to such a payment was contemplated by the agreement embodied in my letter to Mr. Tardieu of March 11, 1918, and the consent which I now give must not be deemed to modify that agreement but must be taken as a reaffirmation of the same. I shall be obliged if you will arrange the details of the matter with Mr. Leffingwell or Mr. Rathbone. As stated in my letter of March 11, the collateral held for these obligations shall be held in such manner as may be agreed between us as most advantageous in the common interest. You will appreciate that by permitting the payment of these obligations before maturity and when your expenditures in the United States exceed our expenditures in France that the result may be in carrying out the arrangement of December 1917. In the future you will have available in the United States more dollars than needed to meet your approved current expenditures here. I therefore must make it a condition of such advance that any such surplus dollars shall be used by your Government for such purposes as I shall approve. I am not unmindful of the fact that in view of the present course of the franc exchange it is likely that you would next April be called upon to make payment of your obligations then maturing in francs rather than in dollars and this is an additional reason why I must impose the condition mentioned.

Permit me to add that in view of the $200,000,000 special credit recently established in favor of your Government and the consent I have now given to the expenditure of an additional $200,000,000 that I should judge from the information I have received from conditions in France that all present need for further strengthening the position of the bank notes of the Bank of France has passed.

Very truly yours,

——— ———.

EXHIBIT No. 2905

LONDON, *Dated Sept. 10, 1918.*
[Recd. 8:44 p. m.]

SECRETARY OF STATE,
Washington:

1771. September 10, 2 p. m.

For Rathbone from Crosby, 510. Your number 383. Consider that furnishing of money for anticipation of French maturities should be accompanied, if at all, by the following conditions: First, that the transaction will be understood to have no bearing upon or constitute a precedent for any discussion of the modification of March agreement such as French Treasury has recently urged upon us. Second, that arrangements shall be made by virtue of which a certain proportion of the collateral in question shall be sold to realize neutral currencies, and that some proportion of the neutral currencies thus realized shall be available *of the* United States at cost to the French Government. Third, that purchase before maturity from American citizens by French Government of its obligations with funds advanced by the United States Treasury shall be made through public announcement at a figure satisfactory to the Secretary of the Treasury. Fourth, that any sums advanced for the purpose shall be specifically understood to be repayable out of any current monthly surplus of dollars made available to the French Government through advance of francs to us over the French current monthly expenditures in the United States and as fast as such surplusses may be accumulated consider that our interest in the matter lies chiefly in possible benefit from use of collateral. The dates at which anticipations may be effected with advances from the Treasury should be determined with reference to the ease with which Treasury could meet additional demands upon it, and with respect to consideration of the value of collateral above mentioned. The conditions above stated are not in contradiction with anything said by you, Leffingwell, or myself when this subject was discussed in my office at Washington. Have just received from Tardieu another memorandum proposing modification of existing arrangement which I have not yet fully digested, but at a glance see that it contains conditions which it is not likely we shall be willing to accept. Do not consider that we are under any obligation to hasten conclusion of French propositions for general modification unless the conclusion should be that we stand on our original ground without any modification, but as it always remains possible that some modification may be agreed upon, feel that the first condition above mentioned should be absolutely made clear or otherwise that subject of anticipation of maturities be dropped. Have just learned from Paris office that Bank of Paris during 30 days ending September 6 made net purchase in Paris of approximately $8,000,000 and net sales of francs in New York, of approximately $4,250,000. In approximately the same period British have sold sterling to value of $66,000,000. All these sales result simply from fact that we are lending money with which these Governments purchase our products for their own use and that *for* their nationals and *through* lack of control by our Government of the purchases made by our nationals in Great Britain and France, seriously doubt whether such funds should be available for operations in America free from appeals, the Secretary of the Treasury especially any use which would not reduce the current advances to Allied Governments and any purchase in the open market of obligations held by American citizens who are not apprized of general plans for the purchase of such obligations before maturity.

PAGE.

H. A. C.

EXHIBIT No. 2906

SEPTEMBER 13, 1918.

Mr. JOSEPH SIMON,
The French High Commission,
1954 Columbia Road, N. W., Washington, D. C.

DEAR MR. SIMON: Mr. Crosby has expressed the following views in relation to United States advances to your Government to enable it to anticipate certain of its maturities:

1. The transaction should be understood to have no bearing upon, and not to constitute a precedent for any discussion of a modification of the March agreement such as the French Treasury has recently urged upon the United States Treasury.

2. Arrangements shall be made, by virtue of which, a certain proportion of the collateral now held to secure the obligations to be retired prior to their maturity shall be sold to release neutral currencies, and some proportion of the neutral currencies thus released shall be made available through the United States Treasury at the cost thereof to the French Government.

3. Sums advanced by the United States Treasury for the purpose of retiring French obligations shall be specifically understood to be repayable out of any current monthly surplus of dollars made available to the French Government (through advance of francs to the United States) over the French current monthly expenditures in the United States, and as fast as such surplusses may be accumulated.

Very truly yours,

[s.] ALBERT RATHBONE.

AR: HB.

EXHIBIT NO. 2907

WHITE & CASE,
14 Wall Street, New York, November 16, 1918.

JDW-MC.
Re American Foreign Securities Company.

BANKERS TRUST COMPANY,
16 Wall Street, New York City.

DEAR SIRS: In our letter to you of November 6, 1918, with reference to the proposed request by American Foreign Securities Company for the release of securities pledged under its indenture of August 1, 1916, and substitution therefor of a United States certificate of indebtedness of $100,000,000, we called your attention to the provisions of section 3 of article Three of said indenture, under which the exchange might be made if approved by Messrs. J. P. Morgan & Co. and Brown Brothers & Co.

We understand that such approval will be given and we have agreed with counsel for Messrs. J. P. Morgan & Co. on the general form of the several documents which will be required in effecting the exchange. These documents will be:

(1) A request from the American Foreign Securities Company.

(2) Resolutions by the board of executive committee of the American Foreign Securities Company.

(3) An agreement between the Government of the French Republic, American Foreign Securities Company and Bankers Trust Company.

(4) A certificate by Messrs. J. P. Morgan & Co. and Brown Brothers & Co. as to the valuation of the securities released and of the certificate of indebtedness pledged in substitution.

(5) Approval of the transaction by Messrs. J. P. Morgan & Co. and Brown Brothers & Co.

If the above documents substantially as now agreed to by us are executed and delivered, you will in our opinion be authorized under the terms of said indenture to make the exchange, without liability on the part of your directors or on your part, as trustee, and there will be no obligation on your part as trustee to question the values of the securities to be released or the values of the securities to be substituted or the form or nature of the latter, and you as trustee will be obliged under the terms of the indenture to make the substitution as requested by the Security Company and approved by said banking firms.

Very truly yours,

(Sgd.) WHITE & CASE.

Doc. 26094, File 2162.
Amer. For. Sec. Co. Coll. Indt.
Aug. 1, 1916.

MEMORANDUM

The only reason that the requested release of the pledged securities under the indenture of August 1, 1916, of the American Foreign Securities Company, and substitution therefor of a United States certificate of indebtedness for $100,000,000 could not be made without breaching the provisions of the indenture, was that J. P. Morgan & Co. and Brown Brothers & Co. were unable to give their approval to the transaction, because at the time the indenture was delivered and the notes issued those firms filed with the Securities Company a letter stating that they would not at any time approve the substitution of collaterals of less value than the value of the collaterals released thereby. The face value of the United States certificate of indebtedness is less than the aggregate face value of the securities to be released.

The difficulty was not because of the nature of the security to be substituted or because of the relative face values or actual values of the securities released and the securities substituted, but because the indenture is specific as to what securities might be substituted for withdrawals and did not mention for that purpose United States securities. The indenture does, however, provide that a different transaction in the way of release and substitution may be had if J. P. Morgan & Co. and Brown Brothers & Co. approve.

Those firms having now determined that by reason of the change in conditions resulting and to result from the ending of the war, involving probably wide fluctuations in exchange rates and making difficult any liquidation of foreign securities, such as those to be released, they are justified in approving of the substitution, there will be no obligation on your part as trustee to question the values of the securities to be released or the values of the securities to be substituted or the form or nature of the latter, and you as trustee will be obliged under the terms of the indenture to make the substitution as requested by the Securities Company and approved by said banking firms.

Exhibit No. 2908

Piping Rock Club,
November 13, 1918.

My Dear Vermilye: I return the resolution with my signature but I would like you to raise one or two questions with Mr. Morgan. It is quite possible they were raised at the meeting and disposed of satisfactorily.

First let me say that the transaction has my entire approval and that it is desirable to put it through—also that it is far safer for the note holders than their present status.

What I question, however, is the right of the company and of its officers to depart from the terms of the indenture as I remember it. In it the French Republic was to maintain a certain margin in securities such as were deposited behind the note. Now, we propose that this margin shall be in French Treasury ctfs. This amounts to a borrower margining with his own paper and that would not be acceptable in any banking transaction. In this case with a U. S. certificate substituted for the collateral no note holder could object from the point of view of security but from a legal and contractual point of view the co. must consider what action the note holder or a viewer (?) could take if he did object.

Another thing: Do we continue to hold the obligation of the Fr. Gov. for $100,000,000—I assume so and that the only change is in the collateral.

I feel sure that our legal lights must have been satisfied themselves that the move can be made and I only wish to be assured of this.

Yours truly,

James J. Brown.

Exhibit No. 2909

MEMORANDUM OF TELEPHONE CONVERSATION BETWEEN MR. CLOSE AND MR. PROSSER AND MR. RATHBONE, ASS'T SEC'Y OF THE TREASURY DEPT., AT WASHINGTON, D. C., THURSDAY, SEPTEMBER 26, 1918

Mr. Rathbone. I think it was a most extraordinary attitude for the committee to take, in view of our talk yesterday and advice of your own counsel: I think they have gone out of their way to obstruct the work of the Treasury Department and the French Government.

* * * * * * *

Mr. Rathbone. In view of the advice of their own counsel, it strikes me as a most extraordinary attitude for your committee to take. Your counsel advised that you would have absolute protection. I wish very much that your committee would reconsider their action.

* * * * * * *

Mr. Rathbone (to Mr. Prosser). I am very much surprised to hear from Mr. Close, in view of our interview here and the advice of your own counsel, that the Trust Company could question the protection of a credit on the books of the Treasury of the United States and that they want a Treasury certificate of indebtedness ——— and in view of the fact that they were absolutely protected in taking a book credit with the Treasury I think it very extraordinary for them to take the position that they want a certificate of indebtedness; particularly too in view of the fact that it is against the policy of this Department to put up U. S. obligations as collateral, I do not think we could handle the business that way.

Mr. PROSSER. We would go to any limit to help out in this matter. We had the matter up with our committee; they are very anxious to cooperate in every way, but they feel that possibly we ought to have negotiable securities if we are going to commit a breach of trust—something better understood; in any event, we had a very serious meeting over it, and if it did not involve such a large sum of money we might feel different, but involving the sum it does——

Mr. RATHBONE. My whole feeling about the thing was that you were amply protected by the Treasury of the United States and my view was upheld by the opinion of your counsel.

Mr. PROSSER. It is very difficult to argue that sort of thing; that it is not ample protection I would not undertake to argue. There is such a very large sum of money connected with this trust that if we are asked to modify or violate such a trust it should be done in such a way that the matter is better understood, some way not so informal——

Mr. RATHBONE. I do not see that there is anything informal about the transaction; it seems to me that a credit on the books of the United States and advice from the Secretary of the Treasury, if such credit is a very formal matter, is good in every way, and is absolutely a compliance with the terms of a trust, and I do not see and your counsel does not see either why you are not amply protected.

I explained to your representative that the policy of the Treasury Department would not permit doing this in any other way than that proposed.

Mr. PROSSER. Why can't it be done in the way we want?

Mr. RATHBONE. Because we are not willing to issue certificates of indebtedness and have them held as security for other governments.

Mr. PROSSER. We had a very serious meeting over this matter and when I tell you that it is on account of the very large sum involved —— that the committee would like it done in such a way that the security is marketable. I do not believe that one could put into words a criticism of this thing——

Mr. RATHBONE. I do not see that there is any criticism—that's just the point I am getting at. You are absolutely protected. The Trust Company, for some unknown reason will not do what we want but will do it some other way——

Mr. PROSSER. I would like to be able to give you some assurance that our committee would feel differently if I brought it up again, but I really feel that they considered it very very thoroughly and were unwilling to permit us to part with our trust security here upon such a letter.

Mr. RATHBONE. Well, all I have to say is that it is very surprising to me to receive such an explanation, and I hope the Trust Company does not advertise it and that they will consider whether or not there will be any loss to them from it. We all know how much these trust matters are regarded so long as the bondholders are protected, and counsel can't say that the form you suggest is any more legal.

Mr. PROSSER. If you have any feeling that we have not got the idea of this thing I would very much like to have a letter from you with your further advice upon it.

Mr. RATHBONE. I don't know exactly what to do about it. I am quite surprised—— it is one of those things very hard to understand; there is no reason given at all—just that "they have a feeling." A feeling is very hard to define. I would like to know ——. If there are any reasons, I would be very glad to have them, but just "a feeling of the committee" is not very much and I am surprised at it.

Doc. 26634, file 2162.
American Foreign Securities Co.
3-yr. note agreement of Aug. 1, 1916.

EXHIBIT No. 2910

MY DEAR MR. DE BILLY: Referring to the letter addressed to you by the Secretary of the Treasury under date of October —, 1918, in regard to the establishment of a special credit in favor of your Government to assure the payment at maturity of the principal and interest of the obligations of your Government in the amount of $100,000,000 held by American Foreign Securities Company, and for the other purposes in said letter indicated, I understand that your Government will make the following arrangements in order to carry out the views of the Secretary of the Treasury as expressed in his letter above mentioned.

(1) Your Government will enter into and perform an agreement with American Foreign Securities Company and Bankers Trust Company, in substantially the form hereto attached as exhibit A, an original thereof to be furnished the Treasury Department.

(2) All notes issued and outstanding under the collateral indenture of American Foreign Securities Company of August 1, 1916, now or at any time hereafter purchased or controlled by your Government, shall at once be delivered to Bankers Trust Company under the said agreement exhibit A, and you will keep the Treasury Department informed of all such deposits and all notations made upon the certificates of indebtedness to be held by Bankers Trust Company under said agreement.

(3) Until the maturity of the said notes of American Foreign Securities Company your Government will purchase and pay for said notes if and when offered to it at private sale up to par and accrued interest, and will bid par and accrued interest for all said notes offered for sale on the New York Stock Exchange on the understanding that the United States Treasury will advance upon said certificates of indebtedness or against obligations of your Government or in such other manner as the United States Treasury shall determine the required funds if and to the extent that your Government has no other dollar funds available for the purpose. Will you be good enough to confirm the foregoing arrangement.

I am, my dear Mr. de Billy,

Very truly yours,

——— ———.

OCTOBER 14, 1918.

Indenture dated the — day of October 1918, made by and between the Government of the French Republic, hereinafter termed the French Government, party of the first part, American Foreign Securities Company, a Delaware corporation, hereinafter termed the Securities Company, party of the second part, and Bankers Trust Company, a New York corporation, hereinafter termed the Trust Company, party of the third part.

Heretofore and under date of July 18, 1916, the French Government and the Securities Company entered into an agreement in pursuance of which the Securities Company advanced to the French Government the sum of $100,000,000 taking its obligation therefor and pledged to secure the same certain neutral securities and certain American securities.

Thereafter and in accord with the provisions of said agreement of July 18, 1916, the Securities Company executed its collateral indenture to the Trust Company as trustee bearing date August 1, 1918 (hereinafter termed the collateral indenture) to secure an issue of its three-year 5% collateral gold notes (hereinafter termed the notes) in the aggregate principal sum of $94,500,000 all of which have been issued and are now outstanding and secured the same by the pledge and hypothecation thereunder of the neutral securities and American securities. All of the cash deposited with the Trust Company contemporaneously with the execution of the collateral indenture has been applied by the Trust Company in accordance with the terms of the collateral indenture.

The French Government desires to obtain the immediate delivery to it of the neutral securities now pledged under the collateral indenture free and clear from such pledge and hypothecation and any and all claim thereon of the Securities Company and of the Trust Company and to assure the payment of the principal and interest of the notes when due and payable.

The installments of interest on said obligation of the French Government and on the notes of the Securities Company have been paid in full as they became due. To the extent that holders of notes have not collected the past due interest on their notes and surrendered their coupons therefor the amounts required to pay said coupons in full upon their surrender have been deposited with Messrs. J. P. Morgan & Co. and are irrevocably dedicated to that purpose. The French Government now owns or controls $—— principal amount of the notes with all unmatured coupons attached.

In consideration of the premises and of other good and valuable considerations to each of the parties in hand paid by the other, the receipt whereof is hereby acknowledged, this indenture witnesseth:

FIRST

Contemporaneously with the execution of this indenture the French Government has surrendered to the Trust Company for cancellation $—— principal amount of the notes with all unmatured coupons attached and the Trust Company hereby acknowledges the receipt thereof and agrees forthwith to cancel the same as paid.

Contemporaneously with the execution of this indenture the French Government has delivered to the Trust Company and the Trust Company hereby acknowledges the receipt of United States Treasury certificates of indebtedness (hereinafter termed the Treasury certificates) to an aggregate principal amount of $—— and in substantially the form hereto attached as Exhibit A. The Treasury certificates have been procured by the French Government to assure the payment of its obligations held as aforesaid by the Securities Company and the Treasury certificates are delivered to the Trust Company under this indenture at the request of the Securities Company to be held by the Trust Company primarily to secure the payment of the outstanding notes upon their maturity and secondarily to secure the payment of the obligation of the French Government held by the Securities Company. To the extent that the Treasury certificates or the amounts paid thereon are not required for the purpose of paying at their maturity the notes or said obligation the French Government hereby irrevocably directs the return or payment thereof to the Secretary of the Treasury of the United States, the Securities Company irrevocably assents to such disposition thereof and the Trust Company agrees to make delivery or payment accordingly. A deposit of cash for the payment of the principal and interest to maturity of the outstanding notes and in an amount sufficient for the purpose with Messrs. J. P. Morgan & Company shall for all the purposes of this indenture be deemed and accepted by the Securities Company and the Trust Company as the payment of the principal and interest of the notes.

SECOND

The Securities Company and the Trust Company severally and respectively do hereby release and discharge the neutral securities from all and every claim and charge they have thereon or in respect thereof and the Trust Company agrees forthwith to deliver the same to or upon the order of the French Government freed from all and every lien, claim, and charge thereon of the collateral indenture.

THIRD

The Securities Company agrees to credit the French Government on account of its indebtedness to the Securities Company with an amount equal to (1) the principal of and unpaid interest upon all notes surrendered by the French Government to the Trust Company for cancellation contemporaneously with the execution of this indenture.

(2) The principal and unpaid interest upon all notes hereafter surrendered by the French Government to the Trust Company for cancellation pursuant to the terms of this indenture.

(3) All amounts paid to and received by the Trust Company upon Treasury certificates and by it applied or held for application to the payment of the principal and interest of the notes.

FOURTH

From time to time as the French Government shall surrender to the Trust Company for cancellation any of the outstanding notes the Trust Company shall forthwith cancel the same as paid and thereupon make appropriate notation upon the Treasury certificates to show that the amount thereof had been reduced by an amount equal to the principal amount of the notes so surrendered for cancellation and from time to time upon the request of the French Government the Trust Company will certify to it the amount of notes so surrendered and cancelled and the notations made by the Trust Company upon the Treasury certificates.

FIFTH

If pursuant to the election of the Securities Company the French Government shall be called upon to make payment of its said obligation given to the Securities Company or any part thereof by the issuance of its bonds in accordance with the provisions of article twelve of said agreement of July 18, 1916, between the French Government and the Securities Company, the French Government shall make delivery of all such bonds to the Trust Company, which delivery is hereby accepted by the Securities Company as good and sufficient delivery to it under the terms of said agreement of July 18, 1916, and thereupon the Trust Company will hold the bonds so delivered, subject to the order of the Securities Company, and shall forthwith make appropriate notation upon the Treasury certificates to show that the amount thereof has been reduced by an amount equal to the principal amount of the bonds of the French Government so delivered to the Trust Company.

In witness whereof the parties hereto have caused this indenture to be duly executed as of the day and year first above written.

CERTIFICATE OF INDEBTEDNESS

THE UNITED STATES OF AMERICA IS INDEBTED TO BANKERS TRUST COMPANY IN THE SUM OF ——— DOLLARS

This certificate is issued under the authority of the act of Congress approved September 24, 1917, as amended and supplemented by the act of Congress approved April 4, 1918, the act of Congress approved July 9, 1918, and the act of Congress approved September 24, 1918, and is payable without interest at the office of the Federal Reserve Bank of New York, on August 1, 1919, or on such earlier date as the principal of the notes of American Foreign Securities Company issued and outstanding under its collateral indenture dated August 1, 1916, to Bankers Trust Company as trustee shall become due by declaration or otherwise.

This certificate shall be exempt from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates,issued under authority of said act approved September 24, 1917, or by said act as amended by said act approved April 4, 1918, the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above. At the option of the Secretary of the Treasury all or any part of this certificate may be paid before its maturity. This certificate shall not bear the circulation privilege and will not be accepted in payment of taxes.

This certificate is not valid for any purpose unless countersigned by the Federal Reserve Bank of New York as fiscal agent of the United States.

Dated: Washington.

(Signed) W. G. MCADOO,
Secretary of the Treasury.
(Signed) HOUSTON B. TEEHEE,
Register of the Treasury.
FEDERAL RESERVE BANK OF NEW YORK,
Fiscal Agent of the United States.
By ——— ———, *Cashier.*

EXHIBIT NO. 2911

OCTOBER 19, 1918.

MY DEAR MR. DE BILLY: I have given careful consideration to the request of your Government that arrangements be now made to assure the payment at maturity of the principal and interest of the obligation of your Government in the amount of $100,000,000 held by American Foreign Securities Company and of the obligations of the American Foreign Securities Company issued and outstanding under its collateral indenture dated August 1, 1916, to Bankers Trust Company as trustee, and thus effect the immediate release of the neutral securities held as collateral under said collateral indenture to secure payment of the obligations of American Foreign Securities Company aforesaid.

I take pleasure in advising you that in accordance with your request, a special credit has been established in favor of your Government in the sum of $100,000,000 to be made available against the execution of obligations of your Government in a corresponding amount.

(1) This credit is to be used only for the purpose of purchasing at par United States Treasury certificates of indebtedness of a special series, to be issued for that purpose, which will bear no interest and which will mature on August 1, 1919, or at such earlier date as the principal of the obligations of American Foreign Securities Company issued and outstanding under said collateral indenture shall become due and payable. Your Government will make arrangements satis-

factory to the Treasury Department regarding the use and disposition of such certificates of indebtedness, the reduction in amount thereof from time to time to correspond with the principal amount of said obligations at not less than par and accrued interest, and the immediate release of the neutral securities hereinbefore referred to.

> (2) All the securities now held as collateral under the collateral indenture as and when released therefrom are to be used by the French Government in such manner as may be agreed upon between us as most advantageous in the common interest and on the understanding that the United States Treasury shall have an opportunity of sharing in the foreign securities provided by the use of the neutral securities so released upon making payment for such foreign currencies so obtained by the United States Treasury in dollars equivalent at then then current rate of exchange of the foreign currencies thus made available to the United States Treasury or, if such foreign currencies are obtained at a less cost by the French Government, then upon making payment in dollars equivalent at the then current rate of exchange to such cost.
>
> (3) In case there shall become available to your Government a surplus of dollar funds in excess of its current cash requirements for war purposes in the United States such excess shall be paid to the Treasurer of the United States up to the sum of $100,000,000, to be used in the payment of a like principal amount of obligations of the French Government held by the Government of the United States, or in such other manner as may be agreed upon between the French Government and the Secretary of the Treasury.

Arrangements will be made for the remission of interest on the obligations of the French Government to be given as hereinbefore set forth, so that interest thereon will be collected only upon such amounts thereof as shall correspond to the actual payments made upon said certificates of indebtedness, or otherwise advanced against such obligations, and only from the dates of such respective payments and advances.

One of the important reasons for the arrangement made hereby is to obtain the immediate release of the foreign securities held as collateral under said collateral indenture, so that the same may be used to rectify and stabilize foreign exchanges, and I understand that you will discuss with the Treasury Department at an early date the method of procedure to be adopted to avail of these securities to the best advantage.

I am, my dear Mr. de Billy,
Very truly yours,

/s/ WM. G. MCADOO.

MR. EDOUARD DE BILLY,
Deputy French High Commissioner,
Washington.

EXHIBIT NO. 2912

JDW-MC.

WHITE & CASE,
14 Wall Street, New York, November 6, 1918.

Re American Foreign Securities Company.

BANKERS TRUST COMPANY,
16 Wall Street, New York City.

DEAR SIRS: As trustee under the collateral indenture of August 1, 1916, between the American Foreign Securities Company and Bankers Trust Company, trustee, your company has authenticated $94,500,000 3-year 5% notes of American Foreign Securities Company, due August 1, 1919, upon which interest has been paid to and including August 1, 1918, and your company holds American and foreign securities as collateral to such notes of an estimated value of upward of $100,000,000.

Such securities belong to the Government of the French Republic and were pledged by it to the Securities Company with power of rehypothecation and to secure its obligation given to that company for $100,000,000, against a loan of a like amount made to it by that company. Your company's dealings with such securities should be governed by the provisions of said indenture.

We understand that the French Government desires to obtain the release and delivery to it of all such foreign securities, and the Securities Company desires also, in anticipation of a further request that may hereafter be made by the

French Government, to obtain the release to the Securities Company of all such American securities.

We also understand that the United States Government is willing to make and advance to the French Government sufficient primarily to secure the payment of the principal and interest of the outstanding notes to authenticated by you, and secondarily sufficient to pay the obligation of the French Government to the Securities Company, such advance not, however, to exceed $100,000,000 and to be given in the form of a nonnegotiable United States certificate of indebtedness for $100,000,000, payable to Bankers Trust Company or bankers Trust Company, trustee, without interest, at the Federal Reserve Bank of New York on July 31, 1919, and to be deposited with you in substitution for such American and foreign securities.

No written request from the French Government, nor written request or resolution of the Securities Company, has been shown to us and we do not understand that as yet any has been prepared.

There has been presented to us a form of a proposed agreement between the French Government, the Securities Company and Bankers Trust Company, trustee, under said identure, intended to provide for the carrying out of the release of securities, as above described. The original draft of this agreement was made by officials of the United States Treasury Department, and it has been the subject of conference with them and has passed through subsequent revises by counsel for all parties thereto, including ourselves as representing your company. It is not yet satisfactory to us as to form in some particulars.

There are two questions for you to consider in connection with this transaction: First, the liability of your company and of your assenting directors in the event the securities should be improperly released by you and for any reason the notes should not be paid and, second, your right to comply with the request and release the securities under the contemplated plan.

If the securities should be improperly released and the notes not paid, there is no doubt but that the amount due thereon would be a preferred claim against your company, having priority over your depositors, and that also your assenting directors would be personally liable, but this result could not obtain even if the securities would under the proposed plan be improperly released unless both the United States Government and the French Government defaulted on their said obligations when due. We say "when due" because a default when due, even with a subsequent payment, would create a disastrous hiatus not perhaps so much as to the financial side, because eventually, undoubtedly payment would be made, but as to the odium that would attach to your company in having breached this large and important trust.

We call your attention to the above points not with any thought of the possibility of failure or delay in the payment when due of such obligations of either the United States or the French Governments, but because the immense sum involved justifies the examination of the plan from that standpoint.

The vital question is as to your right to comply with the request and release the securities under the contemplated plan.

The indenture provides in substance, in article three, section 3, that from time to time on the duly authorized written request of the Securities Company accompanied by certificate as to whether or not such release and substitution is made for the purposes of a contract heretofore made between the French Government and the Securities Company in respect of the loan by the latter to the former, or whether or not request for such release and substitution has been made upon the company by the French Government, and also a certificate addressed to your company, as trustee, signed by J. P. Morgan & Co. and Brown Bros. & Co., specifying the values of the securities to be released and of the securities to be substituted therefor, the trustee shall release from the indenture and deliver to the order of the Securities Company any of the pledged securities "provided, however (except as in each instance otherwise may be approved by J. P. Morgan & Co. and Brown Bros. & Co.)" (1) that the French Government, pursuant to its said contract with the Securities Company, shall have requested that company to release such securities in anticipation of the maturity of the principal thereof; (2) that there shall be pledged under the indenture in substitution other securities of which each shall be the obligation of one of seven specified foreign countries and which substituted securities in the aggregate shall be of value equal to or greater than the value of the released securities; and (3) that the aggregate value of all such obligations of any one of such foreign governments or of any other issue of securities shall not be increased by such substitution to an amount which at any time shall exceed $22,680,000.

It would appear to be the reasonable construction of the above outlined provisions that Messrs. Morgan & Co. and Brown Bros. & Co. might approve of a substitution of securities that did not comply with the above three provisions, namely, (a) that was requested by the French Government for some other purpose than above indicated; (b) where the substituted securities were not of any of the designated foreign governments; and (c) where the aggregate value provision was entirely ignored and a single obligation of the United States Government was accepted.

If you proceed with the substitution upon the theory that you are following the above outlined provisions of the indenture as modified by such approval from those banking houses, you should have such written approval, which should specify the United States certificate of indebtedness that you are to receive.

The question then arises as to the nature of the United States certificate of indebtedness that is to be offered. In this connection it is to be noted that what has at this time been suggested is a certificate payable not to bearer or Bankers Trust Company or order, but directly and solely to Bankers Trust Company either as such or as trustee. The answer to any objection on that ground is, however, that such certificate is to be payable July 31, 1919, the day before the notes mature. If it should not then be paid, it could not be sold and so it makes little difference, it seems to us, whether it is negotiable or not, so long as it is a security and as the agreement does not mention the nature of the securities, it probably is as much of a security as though it were the ordinary bearer certificates of indebtedness. Also it is to be noted that this proposed certificate of indebtedness is really an advance by the United States Government to the French Government. The power to make such advance is found in the act of Congress approved September 24, 1917, as subsequently extended and amended, and it is

> "that for the purpose of more effectually providing for the national security and defense and prosecuting the war, the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to establish credits with the United States for any foreign governments then engaged in war with the enemies of the United States."

There are certain limitations as to the aggregate amount of such credits that may be so extended.

The point to be considered is whether or not, without some representation to you by the Secretary of the Treasury in the nature of a declaration that the certificate in question is issued by him with the approval of the President for the purpose of more effectually providing for the national security and defense and prosecuting the war, and without some declaration that the aggregate credits permitted by law will not thereby be exceeded, you will accept the certificate of indebtedness on its face.

We do not know whether any request has been definitely made to the Treasury Department to make any such declaration or whether the Treasury Department is simply assuming that so far as that feature of the matter is concerned, the certificate of indebtedness will be accepted without further inquiry and on the assumption that the Government officials are observing in every respect the limitations of law. The general custom, of course, is that the issuance of United States obligations is not scrutinized, but is accepted on the assumption that Government officials rigidly observe the restrictions placed upon them. That same custom obtains in connection with the issuance of securities by some of the larger municipalities, as, for instance, the city of New York.

If this certificate of indebtedness in question were part of an ordinary issue of serially numbered certificates or other obligations payable to bearer, the usual custom should be observed, but where it is a single certificate, special in its nature, payable solely to a designated payee and for an unusual purpose, it rests with you to determine how far you desire to press for some such declaration as above suggested on the part of the Government officials before expressing your willingness to accept this certificate.

The above suggestions summarized are that you should have a proper agreement, similar to the one now in course of preparation, proper request, certificates and resolutions by the French Government and the Securities Company, a proper written approval by Messrs. J. P. Morgan & Co. and Brown Bros. & Co., and some declaration by the United States Government justifying the issuance of the credit on behalf of the French Government. The theory of this certificate of indebtedness is that the credit is erected under the authority of the statute for the benefit of the French Government. That it is immediately assigned to the

Securities Company and thereupon immediately assigned by the latter to Bankers' Trust Company, trustee, and that the United States Government, in acceptance and recognition of such immediate use by the French Government of the erected credit, payable July 31, 1919, and the several assignments thereof, issues its certificate of indebtedness as contemplated.

There is one other point to which your attention should be directed. The interest on the notes that will be due on February 1, 1919, and also such interest that will be due August 1, 1919, will, as we understand it, be sufficiently covered in amount by the difference between the face value of the United States certificate of indebtedness and the principal amount of the notes now outstanding. The payment of the February interest would, in event of default, be made from the proceeds of such certificate of indebtedness, which by its terms is made to mature prior to July 31, 1919, if the principal of the notes issued under said indenture became due earlier by declaration or otherwise.

Very truly yours,

(Sgd.) White & Case.

Doc. 26094, file 2162.
Amer. For. Sec. Co. Coll. Indt.
Aug. 1, 1916.

Exhibit No. 2913

Certificate of Indebtedness

THE UNITED STATES OF AMERICA IS INDEBTED TO BEARER IN THE SUM OF EIGHTY-ONE MILLION FIFTY THOUSAND EIGHT HUNDRED DOLLARS ($81,050,800)

This certificate is issued under the authority of the act of Congress approved September 24, 1917, as amended and supplemented by the act of Congress approved April 4, 1918, the act of Congress approved July 9, 1918, and the act of Congress approved September 24, 1918, and is payable with interest from January 28, 1919, at the rate of four and one-half per centum per annum at the office of the Federal Reserve Bank of New York on July 31, 1919, or on such earlier date as the principal of the notes of American Foreign Securities Company issued and outstanding under its collateral indenture dated August 1, 1916, to Bankers' Trust Company as trustee, shall become due by declaration or otherwise.

This certificate shall be exempt both as to principal and interest from all taxation now or hereafter imposed by the United States, any State or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates issued under authority of said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above. At the option of the Secretary of the Treasury all or any part of the principal of this certificate may be paid before its maturity, and interest upon all amounts so paid shall cease from the respective dates of payment. This certificate shall not bear the circulation privilege, and will not be accepted in payment of taxes.

Dated, Washington, January 28, 1919.

(Sgd.) J. H. Moyle,
Secretary of the Treasury.

(Sgd.) James W. McCarter,
Register of the Treasury.

Exhibit No. 2914

Agence Financiere du Gouvernment Francais aux Etats-Unis,
2 Rector Street, New York, November 15th, 1918.

Seward Prosser, Esq.,
President, Bankers Trust Co., New York City.

Dear Mr. Prosser: After our conversation of yesterday I do not hesitate to give you very frankly, and in the most friendly manner, my views on the present situation as regards the question of the release of the collateral of our loan with the American Foreign Securities Co.

When, a few weeks ago, the plan was formed to use a credit of the United States Treasury to obtain this release, we received from Messrs. J. P. Morgan & Co. and from yourself on behalf of the Bankers Trust Co. a response which I am pleased to acknowledge. Representatives of the Morgan firm, and of the Bankers Trust went with me to consult with Mr. Rathbone at the Treasury Department in order to examine the means of carrying out the plan.

At that time, as well as during all the negotiations, the principle of the operation itself was never put in question. The only reference which was made to it was between ourselves when you told me that you and the executive committee of the Bankers Trust were unanimously of the opinion that, provided the credit to be opened by the Treasury should take the form of a certificate of indebtedness, the operation could be considered as constituting an anticipated payment, making it possible to disregard the provisions of the letter of pledge applying to the collateral and to release the securities forming this collateral.

As to the form of the instrument to be issued by the Treasury Department, you will recall that it had been first contemplated that the United States Treasury should open on its books a credit evidenced by a letter of the Secretary of the Treasury. After an exchange of views and as suggested by you, it was decided to have this credit take the form of a certificate of indebtedness.

This being agreed upon, we set forth to arrange all the details of the transaction. *At the last moment, when everything was ready, I was informed that, at a meeting of your board of directors, objections were made to the operation as contemplated, on the ground that according to the terms of the pledge, it is necessary, in order to release the securities constituting the collateral, to substitute securities of an equal value.*

This view, as you no doubt realize, involves the principle itself of the operation as it was conceived by all of us, and you will understand that, after all that has passed between us, and the reports I have made to my Government of the agreement between us and the Bankers Trust Co., I cannot again approach my Government and the American Government on this subject until the board of directors of the Bankers Trust Co. takes, on the question involved, a formal decision under their own responsility.

The question before them is whether or not they consider a certificate of indebtedness of the American Treasury as acceptable for its exact equivalent in cash. The question being thus presented, I have personally no doubt of the answer.

Believe me, dear Mr. Prosser,
Very sincerely yours,

(Sgd.) J. Frederic Bloch.

Exhibit No. 2915

VI*

"C"

(Pencilled) 1/29/19.

(*To Bankers Trust Company, as Trustee under Collateral Indenture with America Foreign Securities Company dated August 1, 1916*)

Dear Sirs: The undersigned hereby approve of the release and substitution of securities called for in the accompanying request of American Foreign Securities Company, made under the provisions of the collateral indenture dated August 1, 1916, between American Foreign Securities Company and Bankers Trust Company, trustee. This approval is given for the purpose of authorizing such release and substitution of securities pursuant to the provisions of section 3 of article three of said collateral indenture.

The change in conditions resulting and to result from the ending of the war, involving probably wide fluctuations in exchange rates and making difficult any liquidation of foreign securities such as those released as above referred to, confirm the undersigned in the opinion that the securities to be pledged in substitution for such released securities are fully as desirable for collateral as the released securities.

Dated January 29, 1919.

(Sgd.) J. P. Morgan & Co.
(Sgd.) Brown Brothers & Co.

Doc. 26634, file 2162.
American Foreign Securities Co.
3-year note agreement of Aug. 1, 1916.

EXHIBIT No. 2916

(Pencilled) 1/28/19.

STATEMENT PRESENTED BY MR. ANDERSON

For convenience in explanation, the securities pledged by the French Government with the company may be considered as divided into two lots:

1. The securities listed in exhibit "A", which are those held by the Bankers Trust Company as security for the payment of the company's three-year notes.

2. The securities listed in exhibit "D", which are the securities held by the company itself, and which are not subject to the collateral indenture with the Bankers Trust Company.

The French Government desires the release of all of these securities, both those in exhibit "A" and "D".

In substitution, the French Government has arranged for the deposit with the Bankers Trust Company of a United States certificate of indebtedness.

Simultaneously with this substitution, the French Government proposes to cancel approximately $18,949,200 of the three-year notes of the company which it has acquired and now holds.

The principal amount of the Treasury certificate to be deposited will be equal to the difference between $100,000,000 and the $18,949,200 of notes to be surrendered and cancelled by the French Government or $81,050,800.

The Treasury certificate matures July 31, 1919, or any earlier date upon which the notes become due in case of default.

The amounts collected on the Treasury certificate are to be applied——

1st, to the payment of the principal and interest of the notes, and

2nd, to the payment of the principal of the obligations of the French Government to the company under its contract of July 18, 1916.

The French Government contemplates purchasing, from time to time, additional notes of the company, and surrendering them for concellations, in which event the principal amount of such notes are to be credited as payments on account of the Treasury certificate, and to be noted thereon.

Thus, from time to time, the amount of the Treasury certificate will be reduced.

Inasmuch as by the surrender by the French Government for cancellation of notes of the Securities Company (bearing unmatured coupons) as above stated, the Securities Company will be relieved from, itself, paying the amount of such notes and coupons so cancelled, the new agreement provides that the amount of such notes and unmatured coupons shall be credited as prepayments in part of the $100,000,000 obligation of the French Government to the Securities Company under its contract of July 18, 1916; but nevertheless, as provided in said contract the French Government remains obligated to pay interest at the contract rate of 7¼% on the entire $100,000,000 up to July 31, 1919.

In the negotiations with the Treasury Department it became necessary to agree that the Treasury certificate should be secured only for the payment of the *principal* of the obligation of the French Government to the Securities Company; but as the Treasury certificate will never exceed the amount of such principal it does not seem that the distinction is of practical importance.

As part of the transaction in which the Treasury certificate is deposited with the Bankers Trust Company, as above stated, the French Government will also pledge with the Securities Company as security under the contract of July 18, 1916, the securities scheduled in exhibit "F" of an estimated valuation of about $9,000,000. Thus the Treasury certificate will secure the payment of the principal of the obligation of the French Government to the Securities Company, and the securities pledged in exhibit "F" will secure the payment of the interest.

EXHIBIT 2917

"SCHEDULE A".—*List of all securities held by Bankers Trust Company as trustee under indenture of American Foreign Securities Company, close of business January 22, 1919*

Dossier	Description	Amount
161	Argentine 4% 1896, J & J £	126,000
162	“ “ “ J & J “	451,000
163	“ “ “ J & J “	395,800
164	“ 4% 1897-1900, A & O “	46,000
165	“ 4% 1897-1900, A & O “	135,500
166	“ 4% 1897-1900, A & O “	4,000
167	“ 4% 1897-1900, A & O “	375,500
168	“ 4% 1897-1900, A & O “	12,000
169	“ 4% 1897-1900, A & O “	91,800
170	“ 4% 1897-1900, A & O “	1,770
171	“ 4% 1900, A & O Fcs	5,979,500
172	“ Interieure 4½% 1911, J & J “	48,685,000
173	“ 5% 1884, J A J & O “	37,000
174	“ “ “ J A J & O “	55,000
176	“ Garanti 5% 1886, J & J “	1,599, 00
177	“ “ “ “ J & J “	197,500
178	“ “ “ “ J & J “	75,000
180	“ Interieure 5% 1905, M J S & D Pesos	257,800
181	“ “ “ “ M J S & D “	1,359,500
182	“ “ “ “ M J S & D “	1,921,000
183	“ “ “ “ M J S & D “	25,000
184	“ “ “ 1907, J & D “	1,354,200
185	“ “ “ “ J & D “	382,500
186	“ “ “ “ J & D “	435,000
[1] 186	“ “ “ “ J & D “	10,000
187	“ “ “ 1909, M & S “	319,000
188	“ “ “ “ M & S “	2,717,700
210	“ Cedulas 6%, J & J “	10,800
211	“ “ “ J & J “	41,700
212	“ “ “ M & S “	482,500
213	“ “ “ J & J “ M & S “	7,936,000
214	“ 5% 1909, M & S “	10,000
215	“ “ “ M & S “	16,000
157	Brazil funding 5% 1898, J A J & O £	69,400
158	“ “ “ “ J A J & O “	78,800
159	“ “ “ “ J A J & O “	38,000
160	“ “ “ “ J A J & O “	92,000
1	Denmark 3% 1894, J & D Fcs	2,191,000
2	“ “ “ J & D “	2,993,200
3	“ “ “ J & D “	6,225,200
4	“ “ 1897, J & J “	77,000
5	“ “ “ J & J “	15,400
6	“ “ “ J & J “	6,419,700
7	“ 3½% 1886, J & D 11th “	148,000
8	“ “ “ , J & D 11th “	85,500
9	“ “ “ , J & D 11th “	422,000
10	“ “ “ , J & D 11th “	1,228,000
11	“ “ “ , J & D 11th “	875,000
12	“ “ 1901, J & J “	1,305,500
13	“ “ “ , J & J “	1,057,000
14	“ “ “ , J & J “	4,190,200
15	“ “ 1909, F & A “	3,377,500
16	“ “ “ , F & A “	3,416,000
17	“ “ “ , F & A “	4,775,000
18	“ “ 1900, J & J “	199,500
19	“ “ “ , J & J “	40,600
20	“ “ “ , J & J “	484.400
21	“ 3½% Banque Hypoth 1906, M & N “	957,000
22	“ 4% “ “ 1908, J & J “	1,166,500
23	“ “ “ “ 1912, J & J “	1,785,500
100	Holland 3% rente 1896, no coupons Gld	1,437,000
101	“ “ “ 1896-1898-1905, no coupons “	42,000
102	“ “ “ 1896-1905, “ “ “	19,100
103	“ “ “ 1898, “ “ “	1,689,000
104	“ “ “ 1896-1905, “ “ “	314,500
105	“ “ “ 1896-1905, “ “ “	52,700
107	“ “ “ 1905, M & S “	282,000
108	“ “ “ 1905, M & S “	4,000
109	“ “ “ 1905, M & S “	1,800
197	Egypt unified 4%, M & N Fcs	44,907,500
198	“ “ “ , M & N “	56,390,000
199	“ “ “ , M & N “	20,662,500
200	“ “ “ , M & N “	17,775,000
201	“ privileges 3½%, A & O “	16,844,500
202	“ “ “ , A & O “	17,895,000
203	“ “ “ , A & O “	17,987,500
204	“ “ “ , A & O “	11,950,000

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[1] Bis.

"SCHEDULE A".—*List of all securities held by Bankers Trust Company as trustee under indenture of American Foreign Securities Company, close of business January 22, 1919*—Continued

Dossier	Description	Amount
24	Norway 3½% 1886 (3), M & N Fcs	655,200
25	" " " ", M & N "	1,247,400
26	" " " ", M & N "	1,753,920
27	" " " ", M & N "	421,848
28	" 3% 1888, F & A "	100,800
29	" " ", F & A "	390,600
30	" " ", F & A "	441,000
31	" " ", F & A "	124,488
32	" " 1896, F & A "	250,000
33	" " ", F & A "	155,000
34	" " ", F & A "	81,000
35	" " ", F & A "	248,000
36	" " 1903, A & O "	1,703,000
37	" " ", A & O "	3,048,500
38	" 3½% 1894, A & O "	302,400
39	" " ", A & O "	252,000
40	Norway 3½% 1894, A & O "	2,205,000
41	" ", A & O "	1,518,048
42	" " 1895, M & S Kr	137,000
43	" " ", M & S "	230,400
44	" " 1898, no coupons Fcs	498,000
45	" " 1900, J & J "	205,000
46	" " ", J & J "	216,000
47	" " ", J & J "	536,000
48	" " 1902, A & O "	400,000
49	" " ", A & O "	448,000
50	" " ", A & O "	1,290,000
51	" " 1904, J & D "	7,899,500
52	" " Banque Hypoth 1909, J & J "	2,643,000
53	" " " " 1895–98, J & J Kr	30,000
54	" " " " " ", J & J "	102,000
55	" " " " " ", J & J "	120,000
56	" " " " 1902, J & J Fcs	1,541,000
57	" " " " 1905, J & J "	952,000
58	" " " " 1907, J & J "	1,460,000
60	" " 1904, M & N "	914,000
189	Quebec (Province of) 3% 1894, J & J "	2,512,500
121	Spain Exterieure Deuda Publica 4%, no coupons Pesetas	1,235,000
125	" " " " ", Series "C" no coupons "	7,464,000
127	" " " " ", Series "G" " " "	36,700
190	Suez Canal 1st series 3% 1871, M & S Fcs	435,000
191	" " 2nd " " 1885, M & S "	5,715,000
192	" " 3rd " " 1906, M & S "	3,423,000
193	" " Nouvelles 5%, F & A "	12,861,000
194	" " Bons de coupons arrieres remboursables 5%, annually "	2,308,175
195	" " Parts de Societe Civile 1880, Jan. annually parts	1,743
196	" " " " " " 1882, coupon no. 75 "	682
207	" " Actions de Capital, J & J Shs	10,844
208	" " Actions de Jouissance, J & J "	614
61	Sweden 3% 1888, no coupons Fcs	185,100
62	" " " " " "	691,040
63	" " " " " "	380,072
65	" " 1894, A & O "	25,000
66	" " ", A & O "	2,400,000
67	" " ", A & O "	115,000
68	" " ", A & O "	7,500
69	" " ", A & O "	809,500
70	" 3½% 1890, M & S "	55,530
71	" " ", M & S "	107,358
72	" " ", M & S "	441,155
73	" " 1895, A & O "	176,400
74	" " ", A & O "	226,800
75	" " ", A & O "	1,189,440
76	" " ", A & O "	778,176
77	" " 1899, M & N "	1,070,000
78	" " ", M & N "	1,937,500
79	" " ", M & N "	1,603,500
80	" " 1900, F & A "	1,663,200
81	" " ", F & A "	5,103,000
82	" " ", F & A "	3,192,840
83	" " 1904–06, F & A "	1,010,000
85	" " 1907, F & A "	3,176,500
86	" " ", F & A "	1,821,000
87	" " 1911, M & S "	5,125,000
88	" Interieure 3.60 1887, J & D Cour	1,723,680
89	" 4½% 1913, A & O Fcs	8,458,500
90	" Banque Hypoth 3½% 1910, M & N "	4,680,000
110	Switzerland rente 3% 1890, S J & M "	2,266,000
111	" " " ", S J & M "	1,175,000
112	" " " ", S J & M "	1,260,000

"SCHEDULE A".—*List of all securities held by Bankers Trust Company as trustee under indenture of American Foreign Securities Company, close of business January 22, 1919*—Continued

Dossier	Description		Amount
113	Switzerland rente biffere 3%, M & N	Fcs	16,324,500
114	" " incomepremiere series 3% 1890, J & D	"	1,486,000
115	" " rente 3% 1903 A & O	"	----------
116	" " series A–K 3½% 1899-1902 J & D	"	32,289,000
117	" rente premiere 3½%, M & S	"	11,170,000
118	" " 4% 1900, J & D	"	2,526,000
119	" Berne rente 3% 1895, J & J	"	1,062,500
120	" " " 3% 1897, A & O	"	3,314,500
147	Uruguay 3½% 1891, no coupons	£	21,000
148	" " " " "	"	51,000
149	" " " " "	"	192,100
150	" " " " "	"	15,140
151	" " " J & J O	Fcs	4,788,000
152	" " " J A J & O	"	6,410,000
153	" " " J A J & O	"	3,290,000
154	" 1909, J A J & O	"	5,329,500
	J. I. Case Threshing Machine Co. 1st mtge. 6%, J & D	$	----------
317	Interbroough Rapid Transit Co. 1st & ref. mrge. 5% Jan. 1, 1966, J & J	$	158,000
243	N. Y. Central & Hudson River R. R. Co. 1st mtge. 3½% July 1, 1997, J & J	$	73,000
375	Southern Ry. Co. series "A" dev. & gen'l mtge. 4% April 1, 1956, A & O	$	160,000
	St. Louis & San Francisco R. R. "A" prior lien 4% 1950, J & J	$	4,000,000
	St. Louis & San Francisco R. R. cum. adj. mtge. 6% 1955, A & O	$	5,334,000
	St. Louis & San Francisco R. R. non-cum. income mtge. 6% 1960, payable when declared	$	8,508,000
259	United States Steel Corp. 10/60 yr. sinking fund 5% 1963, April 1, M & N	$	149,000
357	American Tel. & Tel. Co. common	Shs	982
216 & [1] 216	American Tel. & Tel. Co. French bearer ctfs	"	430
227 [1] 227	Atchison, Topeka & Santa Fe Ry. common	"	3,988
250	Canadian Pacific Ry. Co. common	"	845
253	Canadian Pacific Ry. Co. common, French bearer certificates	"	10
	J. I. Case Threshing Machine Co. preferred	"	395
[1] 356	General Electric Co. capital stock	"	4,704
[1] 342	Great Northern Ry. Co. preferred	"	406
349	Northern Pacific Ry. capital stock	"	1,083
354	Southern Pacific Co. capital stock	"	428
254	Union Pacific R. R. Co. common	"	3,164
355	Union Pacific R. R. Co. preferred	"	417
271	United States Steel Corp. preferred	"	2,360
[1] 219	Utah Copper Company	"	406
247	American Smelters Sec. Co. pfd. series "A" stock	"	195
219	Utah Copper Company F/B certificates	"	48
222	Utah Copper Company F/B certificates	"	375

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[1] Bis.

Doc. 26634, file 2162.
American Foreign Securities Co.
3-Yr. Note Agmt. Aug. 1, 1916.

EXHIBIT NO. 2918

JULY 31, 1919.

Re American Foreign Securities Co.
Collateral indenture dated August 1, 1916.

Monsieur J. FREDERIC BLOCH,
Agencs Financiere Du Government Francais aux Etats-Unis,
2 Rector Street, New York City.

DEAR SIR: We beg to advise that we have this day collected the principal amount of the United States of America certificate of indebtedness dated January 28, 1919, due July 31, 1919, amounting to $79,405,800.

As provided by the agreement between the Government of the French Republic, American Foreign Securities Co. and Bankers Trust Company, individually and as trustee, dated January 29, 1919, we have reserved for the payment of all outstanding American Foreign Securities Company three-year 5% notes due August 1, 1919, $73,905,800 and for the payment of interest due August 1, 1919, on the above notes $1,847,645, and have handed our check for the balance, i. e., $3,652,355, to the American Foreign Securities Company.

We have requested the Federal Reserve Bank of New York to place to the credit of the Treasurer of the United States $1,810,441.49, representing the interest due on the United States Treasury certificate above mentioned as provided by article first of the agreement of January 29, 1919.

Very truly yours,

——— ———, *Vice President.*

HFW-BW.
Doc. 29010, file 2162.
American Foreign Securities Co. Coll.
Indenture Aug. 1, 1916.

AmF. S. Co.

U. S. Treas. ctf. due July 31		$79,405,800
Int. due		1,810,441.49
		$81,216,241.49
Amt. required to pay notes due Aug. 1		79,405,800
Prin	$73,905,800	
Int	1,847,645	
	75,753,445	
		75,753,445
		3,652,355

Surplus 3,652,355.

C. W. C.

Doc. 29010, file 2162.
American Foreign Securities Co. Coll.
Indenture Aug. 1, 1916.

EXHIBIT NO. 2919

AGENCE FINANCIERE DU GOUVERNEMENT FRANCAIS AUX ETATS UNIS,
2 Rector Street, New York, August 7th, 1919.

The Hon. ALBERT RATHBONE,
Assistant Secretary of the Treasury, Washington, D. C.

MY DEAR MR. RATHBONE: I beg to acknowledge receipt of your letter of August 1st and to confirm my agreement with the following:

1. On the 31st of July 1919, the United States certificate of indebtedness, held by the Bankers Trust Co., in the principal amount of $81,050,800, was collected by said trust company for the net amount of $79,405,800.
2. On the same day, the amount of $1,810,441.50, representing the interest due on the above mentioned certificate, was also collected by the Bankers Trust Co. who immediately repaid it to the Federal Reserve Bank, for account of the Treasurer of the United States, as interest due on the obligation dated January 28th, 1919, of my Government, held by the United States, for the principal amount of $81,050,800 which was reduced on March 14th, 1919 to $79,405,800.

For your information, enclosed please find copy of a letter from the Bankers Trust Co. in reference to this transaction.

I confirm my understanding that from July 31st, 1919, interest will run on the outstanding balance of the above mentioned obligation of my Government, $79,405,800, at the rate of five percent per annum.

I am, dear Mr. Rathbone,

Yours very truly,

/s/ EM. VERGE.

EXHIBIT NO. 2920

REPUBLIC OF FRANCE

DEPARTMENT OF FRANCO-AMERICAN WAR COOPERATION

FRENCH HIGH COMMISSION IN THE UNITED STATES,
1954 Columbia Road, Washington, D. C., November 2, 1918.

(*The Deputy High Commissioner to the Hon. Albert Rathbone, Assistant Secretary of the Treasury, Washington, D. C.*)

MY DEAR MR. RATHBONE: Answering your letter of the 25th ult., I beg to advise you that on November 1st the bank balances of the French Government in the United States amounted to $33,000,000.

I estimate that the ordinary expenditures of the French Government in the United States during the month of November will amount to $115,000,000, that is without taking into consideration the interest to be paid to the Treasury on November 15th, nor the purchase of French Government bonds.

Except for advances which I shall ask from you in order to meet the above mentioned expenditures, while waiting for a definite agreement on the question of the release of the collateral securing our loans, it appears to me that the dollars which we are to receive at the rate of $20,000,000 each Tuesday and $10,000,000 each Thursday during the month as the equivalent of the francs deposited with the Caisse Centrale du Tresor Public, will be sufficient to meet our current expenditures during November.

I take the liberty of suggesting, on account of the instructions I have given with the assent of the Treasury to the banks in regard to the purchase of French Government bonds, that a working bank balance of $35,000,000 would seem to be, under present circumstances, a minimum below which we could not very well remain.

/s/ BILLY.

EXHIBIT No. 2921

AMERICAN FOREIGN SECURITIES CO.,
Wilmington, Del., February 10, 1919.

W. GERARD VERMILYE, Esq.,
Secretary, American Foreign Securities Co.,
59 Wall Street, New York City.

DEAR MR. VERMILYE: Replying to your letter of even date it seems to me that it would be well to add to the draft of the proposed letter a clause to the effect that the French Government has indicated its desire that no public statement on this subject should be made.

Yours very truly,

A. M. ANDERSON, *Vice President.*

AMA/MEC.

EXHIBIT No. 2922

59 WALL STREET, NEW YORK,
February 11, 1919.

GEORGE W. ELY,
Secretary, New York Stock Exchange, New York City.

DEAR SIR: In accordance with this company's agreement embodied in its application of August 3rd, 1916, for the listing of its three-year five percent collateral trust notes, I beg to advise you that a change has been made in the collateral security lodged with the Bankers Trust Company, as trustee, to secure this issue of notes, in accordance with the terms of a tripartite agreement executed by the Government of the French Republic, the Bankers Trust Company, trustee, and the American Foreign Securities Company, under date of January 29th, 1919, copy of which is enclosed herewith.

From this it will appear that all the collateral heretofore deposited with the trustee as security for this issue of notes had been released in accordance with the terms of the indenture of this company to the Bankers Trust Company, as trustee, dated August 1st, 1916; that $18,949,200 par value of the notes have been cancelled, and that to secure the remainder of the notes, there has been deposited with the Bankers Trust Company, as trustee, a United States certificate of indebtedness, due July 31st, 1919, for $81,050,800, an amount in excess of the principal and interest of the uncancelled notes.

As the French Government has especially requested that no public announcement regarding this change of collateral be made, no stpes are being taken to publish it in the papers, or put it upon the news slips, and this company will appreciate it if your committee can see its way clear to cooperate with it in complying with the wishes of the French Government.

Requesting the favor of an acknowledgment, I remain,

Yours very truly,

(sgd.) W. G. V., *Secretary.*

EXHIBIT No. 2923

NEW YORK STOCK COMPANY,
SECRETARY'S OFFICE,
New York, February 13, 1919.

Mr. W. GERARD VERMILYE,
Secretary, American Foreign Securities Co.,
59 Wall Street, New York City.

DEAR SIR: Your letter of February 11, 1919, with enclosures received, in the matter of the exchange of securities in the loan of American Foreign Securities Company listed August 3, 1916.

Referring to your agreement in reference to notice to the stock exchange of the substitution of collaterals for those originally deposited, I am instructed by the committee on stock list to inform you that this exchange does not make a publication of the collateral substituted, but the information contained in your letter must be furnished to any bondholder desiring to be informed as to such collateral.

Yours truly,

(sgd) H. S. MARTIN, *Asst. Secretary.*

SL.

[Pencilled memo attached: Mr. M. P., do you wish any reply sent to this? W. G. V.]

EXHIBIT No. 2924

AMERICAN FOREIGN SECURITIES CO.,
Wilmington, Del., August 29, 1919.

W. GERARD VERMILYE, Esq.,
Secretary, American Foreign Securities Co.,
59 Wall St., New York.

MY DEAR MR. VERMILYE: Replying to your letter of the 28th instant, I am writing to say that I have taken the liberty of rephrasing some of the matter in your suggested form of report and am enclosing a copy of the way it lay in my mind. It seems to me wise to mention the connection of the United States Government with the transaction involving the Treasury certificate. If this suggested phraseology meets with your approval I want to show it to Mr. Gardiner, and then send the extract in which the United States Treasury is mentioned to Mr. Rathbone, who, at the time these negotiations were up, preferred that the United States Treasury's name should not then appear.

Yours very truly,

(Signed) A. M. ANDERSON, *Vice President.*

AMA/MEC.
Enclosure.

EXHIBIT No. 2925

BONDHOLDERS COMMITTEE
SUNDAY CREEK COMPANY
COLLATERAL TRUST BONDS

Committee:
James A. Alexander, chairman.
Arthur M. Anderson.
Frederick H. Shipman.

John Quinn, counsel.
E. S. Pegram, secretary, 23 Wall Street, New York.

CENTRAL TRUST CO. OF N. Y. DEPOSITARY,
54 Wall Street, New York, September 8, 1919.

W. GERARD VERMILYE, Esq.,
c/o Messrs. Brown Brothers & Co.,
59 Wall St., New York City.

MY DEAR MR. VERMILYE: Mr. Rathbone has just returned the suggested draft to be included in the company's annual report bearing on the release of collateral and the substitution of a Treasury certificate.

You will see that he has deleted the reference to the agreement with the United States Treasury Department, and has used the plural form, instead of the singular form, in reference to the Treasury certificates.

Will you be good enough to revise the report in accordance with his suggestions?

Yours very truly,

(Sgd.) A. M. ANDERSON.

Enclosure.

EXHIBIT No. 2926

SEPTEMBER 3, 1919.

A. M. ANDERSON, Esquire,
c/o J. P. Morgan & Co., New York City.

MY DEAR MR. ANDERSON: Your letter of the 2nd instant has been received, enclosing a draft of the form of reference which in its annual report the American Foreign Securities Company proposes to make to the release of the securities pledged by the French Government. On this I have noted suggestions for certain small changes.

Very truly yours,

/s/ ALBERT RATHBONE.

EXHIBIT No. 2927

[Copy]

During the year negotiations were undertaken between the French Government and the company, ~~pursuant to an agreement with the United States Treasury Department,~~ for the release of the greater part of the collateral lodged with the company, in consideration of the deposit of ~~a~~ United States Government Treasury certificate[s] of indebtedness of an amount more than sufficient to provide for the principal of the company's notes still outstanding. These negotiations resulted in an agreement signed under date of January 29, 1919, by the terms of which there were surrendered to the trustee for cancellation by or for account of the French Government $18,949,200 of the company's three-year notes and there was deposited with the trustee ~~a~~ United States Government Treasury certificate[s] for $81,050,800, being the amount still due the company by the French Government after allowing credit for the decrease in the company's indebtedness through the surrender for cancellation of the above mentioned amount of notes. At the same time, the greater part of the securities held by the company and re-pledged by it to secure its notes, were released to the French Government, leaving, however, an amount of securities sufficient to secure the interest to become payable by the French Government to the company on February 1 and August 1, 1919.

The amount due ~~of~~ [on] the United States Government certificate was collected at maturity and, to the extent necessary, was used in paying off the company's three-year 5% notes which matured on August 1, 1919. Provision has been made by deposit with the trustee of sufficient funds to pay the principal of such notes as have not yet been presented by the holders for payment.

[Pencilled note: Pencil corrections copied from original. Senate Munitions Committee.]
NOTE.—Crossed-out matter in linetype; pencilled corrections in brackets.

EXHIBIT No. 2928

SEPTEMBER 25, 1918.

JOHN M. PERRY, Esquire,
54 Wall Street, New York City.

DEAR MR. PERRY: This will introduce to you Mr. J. Frederick Bloch of the French Financial Commission, who wishes to talk with you informally and confidentially in regard to certain question which may arise under the instrument of pledge, dated April 1, 1917, executed by the Government of the French Republic to the Central Trust Company of New York.

Very truly yours,

/s/ ALBERT RATHBONE.

AR:MB.

EXHIBIT No. 2929

[Written: Substitution]

AGENCE FINANCIERE DU GOUVERNEMENT FRANCAIS AUX ETATS-UNIS,
2 Rector Street, New York, October 7th, 1918.

Mr. J. N. WALLACE,
President, Central Union Trust Co.,
New York City.

DEAR MR. WALLACE: Referring to our previous conversations, and to the interview which took place at the Treasury in Washington last week, I beg to confirm that it would, in my opinion, be advisable to submit to the approval of your board of directors the general outline of the plan now being evolved, for the liberation of the securities forming the collateral of the 2 yr. 5½% French Government $100,000,000 loan, of which the Central Union Trust is trustee.

As you well know, this plan consists of the substitution for the present collateral of—

(a) The obligation of the United States Treasury for $100,000,000 the exact form of which is still to be determined by mutual agreement between the Treasury Department and yourselves.

(b) A sufficient amount of either the 5½% notes or American securities, to cover to your satisfaction the payment of the interest on the loan, as well as the exchange privilege.

It is, of course, understood that the operation will be made subject to the formal consent of J. P. Morgan & Co., whose approval is in principle already known to me.

I seize this opportunity to express to you my deep appreciation of your wholehearted cooperation for the success of this undertaking which as you have readily seen, is in the interest of our common cause.

Believe me, dear Mr. Wallace,
Very sincerely yours,

(Signed) J. FREDERIC BLOCH.

EXHIBIT No. 2930

OCTOBER 25, 1918.

(Charge to Treasury Department.)

AMEMBASSY,
Paris:

For Crosby from Rathbone. Treasury 513. Embassy's from London 2575, October 8, 10 A. M. Yours 599. Secretary has written French as follows: "I have given careful consideration to the request of your Government that arrangements be now made to assure the payment at maturity of the principal and interest of the obligations of your Government in the amount of $100,000,000 held by American Foreign Securities Company and of the obligations of the American Foreign Securities Company issued and outstanding under its collateral indenture dated August 1, 1916, to Bankers Trust Company, as trustee, and thus effect the immediate release of the neutral securities held as collateral under said collateral indenture to secure payment of the obligations of American Foreign Securities Company aforesaid.

"I take pleasure in advising you that in accordance with your request, a special credit has been established in favor of your Government in the sum of $100,000,000 to be made available against the execution of obligations of your Government in a corresponding amount.

> "(1) This credit is to be used only for the purpose of purchasing at par United States Treasury certificates of indebtedness of a special series, to be issued for that purpose, which will bear no interest and which will mature in August 1, 1919, or at such earlier date as the principal of the obligations of American Foreign Securities Company issued and outstanding under said collateral indenture shall become due and payable. Your Government will make arrangements satisfactory to the Treasury Department regarding the use and disposition of such certificates of indebtedness, the reduction in amount thereof from time to time to correspond with the principal amount of said obligations of American Foreign Securities Company purchased or otherwise paid, the maintenance of the market price of said obligations

at not less than par and accrued interest, and the immediate release of the neutral securities hereinbefore referred to.

"(2) All the securities now held as collateral under the collateral indenture as and when released therefrom are to be used by the French Government in such manner as may be agreed between us as most advantageous in the common interest and on the understanding that the United States Treasury shall have an opportunity of sharing in the foreign securities provided by the use of the neutral securities so released upon making payment for such foreign currencies so obtained by the United States Treasury in dollars equivalent at the then current rate of exchange of the foreign currencies thus made available to the United States Treasury or, if such foreign currencies are obtained at a less cost by the French Government, then upon making payment in dollars equivalent at the then current rate of exchange to such cost.

"(3) In case there shall become available to your Government a surplus of dollar funds in excess of its current cash requirements for war purposes in the United States such excess shall be paid to the Treasurer of the United States up to the sum of $100,000,000, to be used in the payment of a like principal amount of obligations of the French Government held by the Government of the United States, or in such other manner as may be agreed upon between the French Government and the Secretary of the Treasury.

"Arrangements will be made for the remission of interest on the obligations of the French Government to be given as hereinbefore set forth, so that interest thereon will be collected only upon such amounts thereof as shall correspond to the actual payments made upon said certificates of indebtedness, or otherwise advanced against such obligations, and only from the dates of such respective payments and advances.

"One of the important reasons for the arrangement made hereby is to obtain the immediate release of the foreign securities held as collateral under said collateral indenture, so that the same may be used to rectify and stabilize foreign exchanges, and I understand that you will discuss with the Treasury Department at an early date the method of procedure to be adopted to avail of these securities to the best advantage."

Secretary plans to write similar letter regarding French maturities of April first next of which about $20,000,000 already purchased on market. City of Paris and tri city bonds purchased on market about $7,500,000.

/s/ ALBERT RATHBONE,
Assistant Secretary of the Treasury.

EXHIBIT No. 2931

HAUT COMMISSARIAT DE LA RÉPUBLIQUE FRANÇAISE,
Washington, D. C., November 12, 1918.

Hon. WILLIAM G. MCADOO,
Secretary of the Treasury, Washington, D. C.

MY DEAR MR. SECRETARY: I have the honor to acknowledge receipt of your letter of November 6th and I take note that you have been kind enough to open a special credit of $80,000,000 in favor of the French Government in order to assure the payment at maturity of the principal and interest of the 5½% obligations of my Government and thus effect the immediate release of the collateral securing these obligations.

In the name of the French Government I want to express to you our deep gratitude for your decision which terminates in such a satisfactory way, the negotiations which have been taking place between the United States Treasury and the financial department of the French High Commission relative to the release of the collateral securing the French Government loans in this country.

I note the conditions under which this credit is to be made available and I do not see any objection to them.

I beg to remain, my dear Mr. Secretary,

Yours very truly,

[s] BILLY.

EXHIBIT No. 2932

AGENCE FINANCIÈRE DU GOUVERNEMENT FRANÇAISE AUX ETATS UNIS,
2 Rector Street, New York, December 7th, 1918.

Hon. ARTHUR RATHBONE,
Assistant Secretary of the Treasury, Washington, D. C.

DEAR MR. RATHBONE: In accordance with your request, I enclose herewith a memorandum of purchases of French securities to date.

Yours very truly,

[s] J. FREDERIC BLOCH.

Memorandum of purchases of French obligations

	5½% bds.	American foreign sec.	3 cities	Paris
To Nov. 30th. 1918	$26,490,000	$9,524,300	$5,533,000	$2,413,000
For week ending Dec. 6th	1,521,000	2,218,500	1,162,000	----------
Totals to-date	28,011,000	11,742,800	6,695,000	2,413,000
Actual market rates	103 11/16	99 11/16	100¼	98⅜

EXHIBIT No. 2933

LARKIN & PERRY,
CENTRAL TRUST COMPANY BUILDING,
54 Wall Street, New York, December 5th, 1918.

Honorable ALBERT RATHBONE,
Assistant Secretary of the Treasury, Washington, D. C.

DEAR RATHBONE: I have yours of the 4th instant regarding the agreement between the Government of the French Republic and the Central Union Trust Company.

I have eliminated the words to which you referred, and enclose for your examination the proposed schedules. You will note that we have transferred from the American Securities to the Neutral Securities 12,357,000 francs of Cleveland, Cincinnati, Chicago & St. Louis 4%'s of 1930.

At the close of business last night $26,521,000 face value of notes had been surrendered for cancellation and $562,000 surrendered for conversion into long term bonds.

So far as I know we are ready to close whenever the French Government produces the Treasury certificate.

Faithfully yours,

[s] JNO. M. PERRY.

EXHIBIT No. 2934

DECEMBER 10, 1918.

Mr. EDOUARD DE BILLY,
Deputy High Commissioner of the French Republic,
Washington, D. C.

MY DEAR MR. DE BILLY: In accordance with arrangements made with Mr. Simon, the sum of $71,427,000 was today advanced to your Government for the purpose of enabling it to purchase a United States certificate of indebtedness for said amount, payable to bearer, dated to-day, bearing interest at 4½% and payable April 1, 1919, or at an earlier date in accordance with the terms of said certificate. This certificate is purchased by your Government for the purpose of being deposited with the Central Union Trust Company of New York, pursuant to the indenture about to be entered into between your Government and said trust company relating to the release and discharge of certain collateral now held under the instrument of pledge, dated April 1, 1917, securing the two year five and one-half percent secured loan convertible gold notes of your Government maturing April 1, 1919. The warrant representing the advance to your Government was endorsed by Mr. de Chambrun, in whose favor it was drawn, and has been delivered to the Treasurer of the United States in payment for said certificate, which I now have pleasure in delivering to you herewith.

I am, my dear Mr. de Billy,
Yours very truly,

[s.] ALBERT RATHBONE.

EXHIBIT No. 2935

CERTIFICATE OF INDEBTEDNESS

THE UNITED STATES OF AMERICA IS INDEBTED TO BEARER IN THE SUM OF SEVENTY-ONE MILLION FOUR HUNDRED TWENTY-SEVEN THOUSAND DOLLARS ($71,427,000)

This certificate is issued under the authority of the act of Congress approved September 24, 1917, as amended and supplemented by the act of Congress approved April 4, 1918, the act of Congress approved July 9, 1918, and the act of Congress approved September 24, 1918, and is payable with interest from December 10, 1918, at the rate of four and one-half per centum per annum at the office of the Federal Reserve Bank of New York on April 1, 1919, or such earlier date as the principal of the notes of the French Republic issued and outstanding under its instrument of pledge dated April 1, 1917, to Central Trust Company of New York (now Central Union Trust Company of New York) shall become due by declaration or otherwise.

This certificate shall be exempt both as to principal and interest from all taxation now or hereafter imposed by the United States, any State or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess profits and war-profits taxes, nor or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates issued under authority of said act approved September 24, 1917, or by said act as amended by said act approved April 4, 1918, the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above. At the option of the Secretary of the Treasury all or any part of the principal of this certificate may be paid before its maturity, and interest upon all amounts so paid shall cease from the respective dates of payment. This certificate shall not bear the circulation privilege and will not be accepted in payment of taxes.

Dated, Washington, December 10, 1918.

[s]. R. C. LEFFINGWELL,
Secretary of the Treasury.
[s.] HOUSTON B. TEEHEE,
Register of the Treasury.

EXHIBIT No. 2936

DECEMBER 10, 1918.

MY DEAR MR. DE BILLY: Referring to the letter addressed to Mr. Tardieu by the Secretary of the Treasury under date of November 6, 1918, in regard to the establishment of the special credit in favor of your Government to assure the payment at maturity of the notes of your Government now outstanding and secured by the instrument of pledge or pledge agreement executed by your Government to the Central Trust Company of New York under date of April 1, 1917, I understand that your Government will make the following arrangements in order to carry out certain of the views of the Secretary of the Treasury in regard to the transaction:

(1) Your Government will enter into and perform and cause to be performed an agreement with Central Union Trust Company of New York, in substantially the form hereto attached as exhibit A, an original whereof is to be furnished the Treasury Department;

(2) All notes of your Government entitled to the security afforded by the pledge agreement aforesaid, which now or at any time hereafter, before or after maturity thereof, shall be held, purchased, acquired, or paid, either in dollars or in francs, by your Government, it will forthwith upon the purchase, acquisition, or payment thereof, deliver to Central Union Trust Company of New York for cancellation, and you will keep the Treasury Department informed of the amount

of all of said notes so held, purchased, acquired, or paid by your Government, either in dollars or in francs, and delivered to said trust company for cancellation;

(3) Until the maturity of the said notes entitled to the security of the said instrument of pledge your Government will purchase and pay for said notes if and when offered to it at private sale, up to par and accrued interest, and will bid par and accrued interest for all said notes offered for sale on the New York Stock Exchange, and if requested by the Secretary of the Treasury will purchase and pay for said notes and bid therefor up to a premium of ten per cent on the understanding that the United States Treasury will advance either against obligations of your Government or in such other manner as the United States Treasury shall determine the required funds if and to the extent that your Government has no other dollar funds available for the purpose;

(4) In order to carry out the intention expressed in the letter of the Secretary of the Treasury to Mr. Tardieu above referred to, that interest on the obligation of your Government to be given as therein set forth will be remitted so that interest thereon will be collected only upon such amounts thereof as shall correspond to the actual payments made upon said certificate of indebtedness or otherwise advanced against such obligation, and only from the dates of such respective payments and advances, the said certificate of indebtedness will carry interest at the rate of 4½% per annum. The interest collected thereon is to be applied by the French Government to the payment of the interest on its obligation above referred to, and such obligation will bear interest at 4½% until payment is made of such certificate of indebtedness, and thereafter, if not then paid, at the rate of 5% unless and until notice to the contrary is given by the Secretary of the Treasury;

(5) Whenever and as often as, in pursuance of the provisions of the attached agreement exhibit A (a) notation is made on the Treasury certificate therein referred to, showing a reduction in the amount thereof, or (b) cash (other than cash representing interest paid on account of said Treasury certificate) is paid to the Treasurer of the United States, endorsement will be made on the obligation of your Government, hereinbefore referred to, showing a corresponding reduction in the principal amount of the same. When pursuant to the provisions of said agreement the trust company shall deposit with the Federal Reserve Bank of New York to the credit of the Treasurer of the United States the interest by it collected on said Treasury certificate, the said amount will be credited, as of the date of such deposit, on account of the interest upon the aforesaid obligation of your Government.

Will you be good enough to confirm the foregoing arrangement.

I am, my dear Mr. de Billy,
Very truly yours,

[s.] ALBERT RATHBONE.

Mr. EDOUARD DE BILLY,
French Deputy High Commissioner,
Washington, D. C.

Encl. 1.

EXHIBIT NO. 2937

NEW YORK, *January 8th, 1919.*

FRENCH FINANCE COMMISSION,
2 Rector Street, New York.

(Attention Mr. De Saint Phalle.)

GENTLEMEN: We acknowledge receipt of your favor of the 7th inst. and as requested therein, we have presented to the Federal Reserve Bank United States Treasury certificate of indebtedness in the principal amount of $71,427,000 together with a letter requesting them to reduce the principal of the said certificate by endorsing thereon a statement indicating a credit or reduction of $3,384,000 representing the deposit for cancelation by Messrs. J. P. Morgan & Co. of $3,109,000 for the two-year 5½% notes and $275,000 of said notes canceled against conversion into twenty-year bonds of the Government of the French Republic.

Yours very truly,

CENTRAL UNION TRUST COMPANY,
——— ———, *Vice President.*

EXHIBIT No. 2938

CENTRAL UNION TRUST COMPANY OF NEW YORK,
March 15th, 1919.

FRENCH FINANCE COMMISSION,
2 Rector Street, New York City.
(Attention of Mr. De Saint Phalle.)

GENTLEMEN: We acknowledge receipt of your favor of the 13th inst., and as requested therein we have presented to the Federal Reserve Bank United States Treasury certificate of indebtedness in the principal amount of $71,427,000, together with a letter requesting them to reduce the principal of the said certificate by endorsing thereon a statement indicating a credit or reduction of $1,953,000 representing the deposit for cancellation by Messrs. J. P. Morgan & Company of $1,268,000 of the two-year 5½% notes and $685,000 of said notes cancelled against conversion into twenty-year bonds of the Government of the French Republic.

Yours very truly.

[s.] B. A. MORTON, *Vice President.*

EXHIBIT No. 2939

AGENCE FINANCIÈRE DU GOUVERNEMENT FRANÇAIS AUX ETATS UNIS,
New York, 2 Rector Street, April 3rd, 1919.

The Hon. ARTHUR RATHBONE,
Assistant Secretary of the Treasury, Washington, D. C.

MY DEAR MR. RATHBONE: Referring to Mr. De Saint Phalle's letter to you of March 17th, I beg to advise you that up to the end of the period fixed for conversion on additional amount of $588,000 French Republic 2 year 5½ percent notes have been converted into twenty-year bonds.

I enclose herewith the copy of a letter from the Central Union Trust Co. under date of April 1st advising me that the United States certificate of indebtedness dated December 10th, 1918, held by them was at my request presented to the Federal Reserve Bank of New York for a notation of reduction in the principal amount of said certificate by $588,000, leaving a balance due of $65,502,000.

You will also find herewith copy of a letter from the Central Union Trust Co., dated April 1st, advising me that they have collected on that day the above mentioned certificate of indebtedness in the principal amount of $65,502,000. This sum has been turned over to Messrs. J. P. Morgan & Co., and applied to the payment of the French Republic 5½ percent 2-year notes, due April 1st, 1919.

I am, my dear Mr. Rathbone,

Yours very truly,

[s.] J. FREDERIC BLOCH.

EXHIBIT No. 2940

TREASURY DEPARTMENT,
Washington, December 12, 1918.

Memorandum for Mr. Strauss.

Through an arrangement made with the Secretary of the Treasury there has been released from the lien thereon of the instrument of pledge securing the French Government notes which will mature April first, next a large amount of neutral securities. Under an arrangement with the French Government these securities are to be used to rectify exchanges in such a manner as may be agreed upon. I shall be glad to have your views as to the best method to use the securities in question to attain that purpose. In the meantime I will be obliged if you will let me know of any application made for leave to send these securities out of the United States. I should like to be informed of any such application before license for their export is granted.

[s.] A. R.

EXHIBIT No. 2941

DECEMBER 12, 1918.

Mr. JOSEPH SIMON,
French High Commission, Washington, D. C.

DEAR MR. SIMON: I understand that the proposed agreement between your Government and the Central Union Trust Company has been executed, and I assume therefore there is now held at the disposal of your Government by said Trust Company, the neutral securities, the release of which was contemplated in the establishment and making available of the special credit established in favor of your Government to provide for the payment of its notes maturing April 1st next.

One of the important purposes of this transaction was to enable rectifying neutral exchange. I shall be glad to learn your plans in regard to the use of the released securities and to discuss the same with you before any final determination of the matter.

I am, my dear Mr. Simon,
Very truly yours,

[s] ALBERT RATHBONE.

EXHIBIT No. 2942

FEDERAL RESERVE BOARD,
Washington, December 13, 1918.

Memorandum for Mr. Rathbone.

Can you send me another photographic copy of the securities released by the French? I want to send it to Kent, together with the substance of your memorandum of December 12. I do not know just what Kent can do in the matter. Our regulations at present require no license for the shipment of securities abroad, they simply require a declaration to the effect that no enemy interest is involved, and such statements are filed with the Division of Foreign Exchange. These statements, however, need not be filed at any specified time before the shipments, so it is not at all certain that Kent would have a knowledge of the shipment sufficiently in advance to interfere with any transactions which it might be desirable to stop. We can discuss this matter with Kent when he is next here.

As to the best method of using the securities in question to rectify exchanges, I take it that the French are not willing that these securities should be sold for their account for that purpose. If we were at liberty to sell them for that purpose they might be of considerable use. I do not think that we require them as collateral for under present conditions we could, I think, borrow on our unsecured obligations in any market, or where the Treasury promotes the transactions through the banks, Treasury certificates would be accepted as security, as in the Spanish case. I will discuss this matter with you at your convenience and, in any event, I think we might discuss it with Kent next week.

[s.] A. S.

EXHIBIT No. 2943

REPUBLIC OF FRANCE

DEPARTMENT OF FRANCO-AMERICAN-WAR CORPORATION

FRENCH HIGH COMMISSION IN THE UNITED STATES,
1954 Columbia Road, Washington, D. C., Jan. 7 1918[9].

(*The Deputy High Commissioner, to the Hon. Albert Rathbone, Assistant Secretary of the Treasury, Washington*)

MY DEAR MR. RATHBONE: Referring to your letter of December 12th, in regard to the use of the collateral released in accordance with the agreement my Government and the Central Union Trust Company, I take pleasure in transmitting to you the following indications which I have just received from Paris:

About two thirds of the neutral securities now released have become the property of the French Government through exchange for Treasury bonds or French rentes. The French Government is desirous of using these securities to obtain, as soon as possible, resources in certain neutral countries, either by selling them or pledging them in order to rectify neutral exchange.

Considering the state of arrangements already made and the urgent need of resources, the French Government is desirous of having the following securities forwarded to Paris, in the order given below:

(1) Spanish.
(2) Swiss.
(3) Dutch.
(4) Argentinian.
(5) Egyptian.
(6) Brazilian.
(7) Uruguayan.

I have been asked to arrange that these securities be delivered in Paris within the next five weeks, at the latest.

The remaining neutral securities, amounting to about one-third of the total collateral, still belong to their original holders, who loaned them to the French Government and have not agreed to dispose of them under the very good conditions offered. The French Government will have to return these securities to their owners in May, as agreed, but every effort will still be made to acquire as many as possible.

My Government feels confident that these explanations will be sufficient to justify the immediate expedition of the above mentioned securities to Paris. It is necessary for the French Government to have them in order to conclude the transactions which are now in the course of execution.

Furthermore, on receipt of these securities my Government will advise the Treasury Department by cable, of all transactions to take place in connection with these securities, so as to obtain the assent of your Government prior to their use.

I am, my dear Mr. Rathbone,
Pour le Delegue General et par ordre:
Very truly yours,

/s/ J. SIMON.

EXHIBIT No. 2944

JANUARY 11, 1919.

MR. JOSEPH SIMON,
The French High Commission, Washington, D. C.

DEAR MR. SIMON: I take pleasure in acknowledging receipt of your letter of the 7th instant regarding the use of the collateral released in accordance with the agreement between the French Government and Central Union Trust Company.

This Department has no objection to the shipment to France of the neutral securities mentioned in your letter and in the order therein set forth, on the understanding that as rapidly as possible the same will be sold by your Government or used as collateral to secure loans to your Government in the respective countries, thus not only providing for the requirements of your Government in the countries in question, but also improving the general exchange position of the United States as well as of France with the countries in question.

I note that after these securities are received in France, your Government will advise this Department by cable in regard to transactions contemplated in respect to the same, so that the approval of this Department to the specific transaction may be obtained before its actual consummation. Such arrangement is entirely satisfactory to this Department.

Your letter calls to the attention of this Department that the remaining neutral securities released to your Government pursuant to its agreement with Central Union Trust Company above mentioned still belong to their original holders. This Department is of the opinion that every effort should be made by your Government to acquire these securities from their owners, and notes with pleasure that this is the course which your Government will take.

I am, my dear Mr. Simon,
Yours very truly,

/s/ ALBERT RATHBONE.

EXHIBIT No. 2945

[In ink: 1st Shipment]

AGENCE FINANCIERE DU GOUVERNEMENT
FRANCAIS AUX ETATS-UNIS,
2 Rector Street, New York, January 21st, 1919.

CENTRAL UNION TRUST CO.,
New York City.

GENTLEMEN: Referring to our recent conversations, I beg to request you to prepare for shipment on S. S. "Niagara" sailing January 25th, next, the first lot of neutral securities held by you which are to be returned to France in accordance with the schedule of priority already furnished you.

Kindly have the boxes addressed to M. le Ministre des Finances a Paris, and arrange for their delivery to the French officials at the pier on Friday, January 24th. In order to insure the delivery of the cases to the proper official at the docks, Lieutenant Duranjon as representative of my office will join your representative in accompanying the shipment of securities from the bank to the steamer.

Yours very truly,

(Signed) F. DE SAINTE PHALLE.

EXHIBIT No. 2946

[Copy]

AGENCE FINANCIERE DU GOUVERNEMENT
FRANCAIS AUX ETATS-UNIS,
2 Rector Street, New York, March 11, 1919.

J. N. WALLACE, Esq.,
President, Central Union Trust Co.,
New York City.

DEAR MR. WALLACE: On the completion of the shipment to France of the neutral securities formerly held by your company as part of the collateral securing the French Republic two-year 5½% notes of 1917, please convey to the board of directors of the Central Union Trust Co. on behalf of the French Government, our thanks for their cooperation in the handling of this operation.

I take advantage of this opportunity at the same time to express to you personally my sincere thanks for the part you have yourself taken in the negotiations to secure the release of this collateral, and my appreciation of your willingness always to assist us in every way possible.

With kind regards, I am

Yours very sincerely,

(Signed) F. DE SAINTE PHALLE.

EXHIBIT No. 2947

NEW BUSINESS MEMORANDA

Name: American Foreign Securities Co.

Jany. 29, 1919: B. T. Co. is trustee under collateral indenture dated August 1, 1916, securing $94,500,000 of three-year 5% notes which mature August 1, 1919. We are executing today agreement with the American Foreign Securities Company and the French Government, under which $18,949,200 of these notes have been cancelled and United States Treasury certificate of indebtedness for $81,050,800 has been delivered to us as trustee against receipt of which we are delivering the other collateral held by us as trustee. That collateral consists of about 1,000,000 pieces, most of which are to be shipped back to France by our foreign securities department under the supervision of Mr. Dunham. We have not, however, at present adequate space to handle this business of listing and shipping the collateral thus released.

The proceeds of the Treasury certificate, which matures July 31, 1919, are to be used first to pay the principal and interest of the maturing notes, and any balance is to be paid over to the American Foreign Securities Company, all as provided in the supplemental agreement which we have executed today.

H. F. W.

EXHIBIT No. 2948

[Pencilled note: Mr. Rathbone, I do not object to this. R. C. L. Dec. 3/19]

FRENCH HIGH COMMISSION IN THE UNITED STATES
1954 COLUMBIA ROAD
WASHINGTON, D. C.

65 BROADWAY, NEW YORK, *April 2d, 1919.*

The Hon. ARTHUR RATHBONE,
Assistant Secretary of the Treasury,
Washington, D. C.

MY DEAR MR. RATHBONE: Confirming your recent conversation with Mr. Bloch, I beg to transmit to you hereunder the information just received from the Minister of Finance concerning the proposed disposition of the neutral securities belonging to the French Treasury.

First. It is proposed to sell in the countries of their origin about 965,000,000 francs of said securities, the detail of which is as follows:

		Million francs
(a) Scandinavian securities	about	335
(b) Dutch securities	do	25
(c) Swiss securities	do	130
(d) Spanish securities	do	325
(e) Uruguay securities	do	40
(f) Part of Argentine securities		110

Second. It is planned to dispose in the British market of the following securities, the proceeds of which would be affected to the purpose of meeting our payments in the British Empire:

		Million francs
(a) Balance of Argentine securities	about	150
(b) Egyptian securities		300
(c) Brazilian securities		25
Total		475

As it is impossible to determine with any precision the proceeds in foreign moneys of the sale of these securities, the figures indicated in paragraphs first and second represent the approximate valuation in francs. It is to be noted, however, that the proposed negotiations for the sale of the securities, especially in the English market, will undoubtedly present great difficulties and entail long delays.

The above mentioned program covers all the neutral securities at present owned by the French Treasury, a part of which only were held in America in the collateral securing our loans.

As Mr. Bloch told you at your last meeting, we have been requested by the Minister of Finance to examine whether it would be advisable for the French Treasury to exercise its option to purchase the American securities loaned to it by French holders, or to return the securities to their owners at the expiration of the loan agreements beginning in May.

It appears that, on account of the general decline in the values of securities on the American market since 1916, the actual market value of practically all these securities is far below the minimum purchase price fixed in the loan agreements. Under those circumstances, the purchase of these securities at the price fixed three years ago is not, in my opinion, a desirable operation, inasmuch as the total value of the securities involved does not exceed 20 million dollars, and cannot consequently be used as a basis for an important transaction.

It seems to me that the best solution would be to return these securities to their owners at the end of the period, with possibly a very few exceptions. Before recommending this solution to the Minister of Finance, I would like to be sure that you have no objection to this course.

I remain, my dear Mr. Rathbone,
Very sincerely yours,

[S.] BILLY.
(*Acting for the Directeur General des Services Francais aux Etats Unis*).

EXHIBIT No. 2949

AGENCE FINANCIERE DU GOUVERNEMENT FRANCAIS AUX ETATS UNIS,
2 Rector Street, New York, May 28, 1919.

ALBERT RATHBONE, Esq.,
Assistant Secretary of the Treasury,
Washington, D. C.

MY DEAR MR. RATHBONE: I enclose herewith for your confidential information a free translation of a telegram which I have just received from Paris.

I assume that the American Treasury has no objection to the transactions mentioned therein, and if I do not hear from you to the contrary, I shall cable to the Minister of Finance to that effect.

I am, my dear Mr. Rathbone,
Very truly yours,

[s] J. FREDERIC BLOCH.

[Translation of a telegram received from Paris]

(Confidential.)

With reference to my previous telegrams, the French Government is at present negotiating for the sale, on their market of origin, of the following securities coming from our American collaterals:

(1) Danish 3½% 1897 loan for a nominal amount of 7,000,000 kr.;
(2) Danish 3½% 1900 loan for a nominal amount of 1,483,000 kr.;
(3) Argentine cedules hypothecaires for an approximate nominal amount of 19,000,000 pesos M/N.

According to our understanding please bring these negotiations to the knowledge of the Federal Treasury. I assume that the latter will not object to the proceeds being applied to the payments which the French Treasury has to make in neutral countries.

EXHIBIT No. 2950

AGENCE FINANCIERE DU GOUVERNEMENT FRANCAIS AUX ETATS UNIS,
2 Rector Street, New York, July 15th, 1919.

The Hon. ALBERT RATHBONE,
Assistant Secretary of the Treasury,
Washington, D. C.

MY DEAR MR. RATHBONE: Following our conversation of this morning, I enclose herewith for your confidential information a free translation of a telegram just received from Paris.

I understand that the Treasury of the United States has no objection to the transactions mentioned therein, and upon receipt of your confirmation of this understanding, I shall cable to the Minister of Finance to that effect.

I remain, my dear Mr. Rathbone,
Very truly yours,

[s] J. FREDERIC BLOCH.

PARIS, *July 13, 1919.*

(*From Finances to M. Bloch*)

RELEASE OF NEUTRAL SECURITIES

The French Government is now negotiating, on their markets of origin, the following neutral securities coming from the collaterals of our loans in America:

(1o) *Spain: Exterieure.*—For a nominal amount of 10,000,000 pesetas.
(2o) *City of Fribourg loan.*—For a nominal amount of 4,000,000 Swiss francs.
(3o) *Danish Loan 3% 1894.*—For a nominal amount of 1,000,000 kronens.
(4o) *Credit Foncier Stockholm 4% 1904.*—2,800 obligations of 360 kronens, nominal value.
(5o) *Swedish loan 3½% 1899.*—For a nominal amount of 3,000,000 kronens.
(6o) *City of Stockholm 3½% 1909—4%.*—For a nominal amount of 1,500,000 kronens.
(7o) *Caisse hypothecaire des villes Suedoises 3½% 1909:*—For a nominal amount of 600,000 kronens.

According to the engagements we have taken, I would ask you to inform the Federal Treasury of these operations, trusting that it will see no objection to the application of the proceeds of these sales to the payments which the French Treasury has to make in the neutral countries.

EXHIBIT No. 2951

JULY 16, 1919.

Mr. FREDERIC BLOCH,
French Financial Agency,
New York City.

DEAR MR. BLOCH: Your letter of the 15th instant has been received enclosing a free translation of a telegram which you have received from Paris stating that the French Government is now negotiating on their markets of origin certain neutral securities from among those pledged as collateral to loans made in this country.

Confirming our conversation, I have pleasure in advising you that the Treasury of the United States has no objection to the transactions referred to in the cable.

I am, dear Mr. Bloch,
Very truly yours,

[S] ALBERT RATHBONE.

EXHIBIT No. 2952

MEMORANDUM ABOUT THE $400,000,000 DEMAND LOAN, SUBROGATION AND BRITISH AND FRENCH PUBLIC MATURITIES

(By R. C. Leffingwell)

I was called to the Treasury May 8, 1917, and remained through June 1920. At first I was special counsel and assistant in connection with the Liberty Loans. From the end of October 1917 through June 1920, I was Assistant Secretary of the Treasury in charge of fiscal bureaus. After I left the Treasury I rejoined my law firm in New York, from which I had withdrawn when I came to the Treasury, and I resumed my law practice. Three years afterwards, in July 1923, I became a partner in J. P. Morgan & Co. So I can speak of these matters which occurred in 1917 and 1918 only from the Treasury viewpoint.

DEMAND LOAN NOT PAID FROM UNITED STATES LOANS

Objection was made by the United States Treasury to the use by the British Government of the proceeds of United States Government loans to pay the 400 million dollar demand loan, held by a group of American banks, or any part of it. It was paid out of the proceeds of the sale of British owned ships requisitioned by the American Government, out of the proceeds of the sale of securities pledged as collateral for the demand loan, out of gold shipments, etc. In other words the demand loan was wholly paid out of resources of the British Government itself and the proceeds of the sale of British-owned property.

UNITED STATES TREASURY STOPPED SALES OF COLLATERAL

Not only did the United States Treasury not permit the proceeds of United States Government loans to be used to pay the demand loan, but furthermore from February to August 1918 the United States Treasury exacted the stipulation that the British-owned securities held as collateral for the demand loan should not be liquidated and sold on the American market (though the United States Treasury had previously in the summer of 1917 suggested that very course for reducing the demand loan). The loan was an obligation of the British Government in the American market and during the war therefore a matter of concern to the United States Treasury. The United States Treasury found that the liquidation of American securities in the American market by the British Government for the retirement of the demand loan was having a depressing effect upon the bond market and was adding an obstacle to the United States Government's own Liberty Loan and Treasury certificate issues. Therefore it obtained the agreement above referred to, which in effect froze the demand loan for six months.

DISCUSSION BETWEEN GOVERNMENTS

The discussion about the demand loan between Secretary McAdoo and Assistant Secretary Crosby, on the one hand, and Sir Cecil Spring-Rice (the British Ambassador), Sir Richard Crawford (the British commercial attaché), Mr. Bonar Law (the British Chancellor of the Exchequer), Mr. Arthur Balfour (the British Foreign Minister), Lord Northcliffe, Lord Reading, and Sir Hartman Lever, began in the spring and summer of 1917, and continued on into February 1918. The controversy was at some times acute. At one time the Treasury suggested in a cable to Mr. Crosby, published by the State Department, that it was inclined to take up the demand loan and require subrogation with respect to the collateral, because liquidation of the securities was having an adverse effect upon the American market. However some time in January 1918 the Treasury finally decided not to do it.

This eighteen-year-old controversy between the two Governments has long been a matter of public knowledge. It is possible to follow a large part of it in the documents published by the State Department and in various reminiscences.[1]

PUBLIC LOAN MATURITY FEBRUARY 1, 1918

The controversy about the demand loan was accentuated by the problem of the maturity in the American market on February 1, 1918, of 92 million dollars of British Government-secured notes outstanding in the hands of the public. As these were held by the public generally it was not practicable to freeze them as was done with the demand loan. The Secretary of the Treasury made inquiry and became satisfied that this issue, because of our own Government's demands upon our market, could be refunded upon our markets in the existing situation only at a rate of interest so high, and secured by so great an amount of collateral, as would gravely impair the credit of Great Britain and the ability of the United States to carry through successfully its own financing. The Secretary, rather than tolerate a British issue in our market on terms which would reflect upon British credit and also would compete adversely with the Liberty Loans, then decided, with the approval of the President, to lend the money to Great Britain to take up this public maturity but he asked that the United States Treasury be subrogated to the collateral. The Chancellor of the Exchequer, Mr. Bonar Law, at first refused to grant subrogation. He said that Great Britain had not demanded collateral from her Allies for the loans which the British Government had made to their Allies, and said that it would have a very bad effect if it ever became known in Great Britain or to the enemy countries that the United States Government had demanded collateral for its loans to Great Britain. In cables sent to the Chancellor of the Exchequer the Secretary of the Treasury indicated his disappointment that Mr. Bonar Law would not concede subrogation, but the Secretary agreed to accept the more limited assurances tendered by the Chancellor and to lend Great Britain the money to meet the maturity on February 1.

SETTLEMENT OF FEBRUARY 1, 1918

The nine-months long controversy between the two Governments was settled for the time being on February 1, 1918, in the following manner: Great Britain used, to reduce the amount of the demand loan, $80,000,000 proceeds of British owned ships requisitioned by the United States. This was not money lent to Great Britain but money owing to Great Britain. To provide cash towards making payment of the ship money due Great Britain, and to lend to Great Britain to enable her to pay the publicly held notes maturing February 1, 1918, J. P. Morgan & Co. purchased about 150 million dollars of U. S. Treasury 4% certificates of indebtedness, maturing on tax day, June 25, 1918, and placed them among the banks which held the demand loan, thus relieving the Treasury of the necessity of providing cash at an inopportune time[2] and in excess of the 500 million dollar monthly limit which the Secretary had set for loans to the Allies. J. P. Morgan & Co. informally agreed to freeze the remainder of the demand loan and not to sell the collateral on the market without the Treasury's consent. Some days after February 1st and after the payment of the ship money and the loan, the Chancellor informed the Secretary that he was giving instructions that the United States Treasury be subrogated to the lien of former lenders upon the securities previously pledged to the holders of the one year notes, and that these securities as well as the securities pledged to secure the demand loan be dealt with according to the Treasury's instructions. The Secretary replied that this would greatly strengthen his hands in providing for British and American financial needs.

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[1] Papers Relating to the Foreign Relations of the United States 1917, supplement 2, vol. 1, The World War, United States Government Printing Office, Washington, 1932. Life and Letters of Walter H. Page by Burton J. Hendrick, volume 3, 1925, pages 391–405. Intimate Papers of Colonel House by Charles Seymour, volume 3, 1928, chapter 4, pages 96–124.

[2] 400 million dollars 4% certificaes were issued on January 22nd maturing April 22nd, 500 million dollars 4% certificates were issued February 8th maturing May 9th, and 500 million dollars 4½% certificates were issued February 27th maturing May 28th, as appears from the Secretary's Annual Report for 1918, page 25.

BRITISH SHIPS REQUISITIONED BY UNITED STATES

The Secretary of the Treasury was obliged to consent to the above use of the purchase price of the requisitioned ships. The British Government did not desire to part with the ownership of the ships which were under construction in America for Great Britain. The Chairman of the Shipping Board required them. The British Government accepted without question the decision of the United States Government to requisition all vessels building in American shipbuilding yards, including those building to British orders.[1] This was not a Treasury matter, and the purchase price of these ships requisitioned by the Shipping Board from Great Britain, contrary to the wish of Great Britain, was money owing by the United States Government to Great Britain and payable absolutely and unconditionally by the Shipping Board.

CONTROL OF CAPITAL MARKET

For some months the Secretary of the Treasury had taken a strong stand against the offering in our market of any public loans of any of the Allies. This objection extended even to the introduction here of their domestic war loans. Early in January 1918 some weeks prior to the maturity of the British notes held by the public, the Secretary of the Treasury, pending action by Congress, had requested the Federal Reserve Board to pass upon proposals for new security issues, both public and private, and sought the cooperation of corporations, bankers, and municipal officers. In the War Finance Corporation Act, approved April 5, 1918, the Capital Issues Committee was created by Congress. The act also created a corporation to supply essential credits to the war industries. As the Secretary of the Treasury explained in his Annual Report for 1918, page 56, it was feared that the Government's enormous borrowings might absorb so large a portion of the available funds of the country as to leave even the Nation's essential industries without the necessary financial resources. The fact was that the Government of the United States was preempting all, and more than all, of the savings of the people for taxes and for its own war loans. The control of capital issues was an essential part of the Treasury's program. And similarly it was contrary to the policy of the Treasury of the United States and prejudicial to the success of its own vast borrowings to permit any of the Allies to make public issues in competition with the United States Treasury issues on terms which would have been necessarily much more attractive to the lender than those offered by the United States Treasury.

$500 MILLION MONTHLY LIMIT ON LOANS

It is to be observed that the controversy between the Governments arose among other things from the fact that the demands of the Allies upon the American Treasury were of such dimensions from April 1917 until midwinter of 1918 that the Secretary of the Treasury was sincerely doubtful of his ability to meet them all. He laid down a rule of thumb that he could not advance more than 500 million dollars a month to all the Allies. He insisted upon the creation of an Inter-Allied Commission on War Purchases and Finance, of which Assistant Secretary Crosby was chairman, to allocate this 500 million dollars among the Allies. It was for this purpose that Assistant Secretary Crosby went abroad in the autumn of 1917. Similarly the Secretary of the Treasury insisted upon the creation of the Purchasing Commission here, of which Mr. Baruch was chairman and Mr. Lovett and Mr. Brookings were members, to control Allied purchases in this country.

LIMIT OF SUPPLIES AND NEED OF FOREIGN CURRENCIES

However, some time in the forepart of 1918, the situation shifted. The increase purchases of the American Army and Navy became a dominating factor, and at times the limitation of supplies in the United States made it impossible for the Allies to get the consent of the Purchasing Commission to make purchases here in amounts aggregating as much as the 500 million dollars a month. Furthermore, the money we owed the Allies for the francs, and to a smaller extent the pounds, provided by France and Great Britain to meet our Army's expenditures abroad, provided funds available for expenditure here by the Allies which were not monies lent to them but due to them. Consequently some time in the forepart of 1918 the discussions between the United States Treasury and the British and other Allied Treasury representatives became less difficult. The United States Treasury could meet all the demands the Allies could make and justify.

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[1] Letter of Mr. Arthur Balfour, dated August 21, 1917. Cablegram from the Secretary of State to the American Ambassador, dated September 7, 1917. Answer of Mr. Balfour cabled by the American Ambassador Octoer 26, 1917, to the Secretary of State. These papers are all published in the State Department volume referred to in note 1, page 3 above.

A CRISIS OF THE WAR

The Italian disaster at Caporetto and the collapse of Kerensky and defection of Russia, all in the autumn of 1917, and the German advance on the western front in the spring of 1918 and the advance on Paris in the summer of 1918 created a situation so critical that no American Secretary of the Treasury could conceivably hazard any course towards any of the Allies, least of all towards either of the principal Allies, Great Britain or France, which would seem to suggest a lack of confidence in them or a lack of willingness to support them to the full limit of America's ability.

PUBLIC LOAN MATURITY SEPTEMBER 1, 1918

Even so when the next considerable British maturity held by the general public occurred, on September 1, 1918, the Secretary of the Treasury did not consent to lend to the British Government the money to meet this maturity until first he had required the British Government to ascertain on what terms it could be provided for by private financing. On learning that the terms required would be no better than a net price of 94 and a fraction for 6% notes having a maturity of two or three years and with an ample margin of collateral, the Treasury considered that such terms would be injurious to British credit and to the general situation. The Secretary then decided, with the approval of the President, to lend Great Britain the money to pay the notes maturing on September 1, 1918, on the same conditions that had been accepted in connection with the February 1st maturity, viz., that the United States Treasury should be subrogated to the rights of the noteholders with respect to the collateral for these notes. The Secretary of the Treasury thought this collateral might be disposed of when opportunity offered to provide for approved British expenditure here, or in reimbursement of our advances or to obtain credits in Chile and the Argentine.

SELLING THE COLLATERAL

The Treasury was also able to obtain, in connection with this arrangement to provide for the September 1st maturity held by the public, an assurance that the demand loan (which, it will be recalled, had been frozen at the request of the Treasury) would give no further concern to the United States Treasury; and the Secretary consented that the British Government might gradually liquidate the British owned collateral behind that loan and pay it off by that means out of their own securities. Of course it did not suit Treasury or Federal Reserve policies to keep this loan indefinitely frozen. Whether from the point of view of the domestic economy, or from the point of view of the United States Government's relations with Great Britain, one of its principal associates in the war, or from the point of view, important for war purposes to the United States as well as to Great Britain, of maintaining British credit and exchange and buying power throughout the world, freezing the demand loan could only be regarded as a temporary expedient. Therefore, market conditions permitting, it was desirable from every standpoint that the demand loan be gradually liquidated from sales of British owned collateral pledged to secure it; and it did in fact give the Treasury no further concern.

FEBRUARY 1, 1919 MATURITY

The next great public maturity of British obligations did not occur until February 1, 1919, and the United States Treasury declined to provide for that. It was provided for through a conversion which was underwritten by the banks.

ANGLO-FRENCH LOAN

Another great public maturity was that of the Anglo-French loan October 15, 1920. The United States Treasury had nothing to do with providing for that maturity, which was fully paid by the British and French Governments from their own resources.

SUMMARY

It will be seen that, first, the United States Treasury objected to lending money to pay off the demand loan and it was paid by the British Government from its own resources; second, it exercised supervision over the use made of the collateral for the demand loan; third, it in effect froze a considerable part of the demand loan for a considerable period; fourth, it arranged to have the bankers purchase 150 million dollars of Treasury certificates towards providing for a loan to Great Britain to pay the publicly held secured notes maturing February 1, 1918, and to pay the ship money; fifth, it obtained the right to be subrogated with respect to the collateral for the secured notes maturing February 1, 1918, and September 1, 1918; and sixth, it obtained a secondary agreement by the British Government to consult the United States Treasury about the disposition of any other collateral which the British Government had at its disposal in this country. This latter arrangement was regarded as having been completely fulfilled in July 1919.

MATTER OF SUBROGATION

Naturally in view of the Chancellor of the Exchequer's urgent representation to the Secretary of the Treasury, in the course of the somewhat vigorous correspondence between them in 1917 and 1918, that if it became known that the American Government was exacting collateral for its loans to Great Britain it would have a very bad effect on public opinion in Great Britain and abroad, no public announcement was made during the war period of the agreement to subrogate, nor was possession of the collateral demanded nor notice of lien filed. There was no need to do so. The agreement was always honored by the British Government, of course. Subrogation was mentioned by the British Chancellor of the Exchequer in March 1921.[1] The Treasury contemplated the release of the subrogated securities as an inducement to and in connection with a funding arrangement which was under discussion in 1919 and 1920. These discussions were broken off by the British Government in May 1920 and the Treasury's rights with respect to the subrogated securities were retained. The terms of the abortive funding arrangements, including the provision for the release of the subrogated securities, were reported by the Treasury to the Senate Finance Committee in July 1921.[2] The release of the subrogated securities was finally made by Secretary Mellon in connection with the funding arrangement which he consummated in 1923 as duly reported by him in his Annual Report to Congress that year.[3] Whatever the justification of subrogation under the circumstances and at the time it was demanded, it was a war step. The best reason for requiring subrogation, and the secondary agreement with respect to the disposition of British owned securities in this country[4] was to put the American Treasury in a position to guard its own market and to be consulted about available securities for the acquisition of foreign exchange during the war period when so heavy a burden was imposed on the American Treasury and the Allied Treasuries for purchases in neutral countries. When the fighting stopped, and our Government loans ceased, and we stopped supporting the exchanges, these limited special arrangements had served their purpose so far as the protection of the market and the exchanges was concerned. And the retention of collateral for 285 million dollars loaned out of the 5 billion dollars loaned to Great Britain, and 10 billion dollars loaned to all the Allies, after the war was over and funding arrangements had been completed, would have been grotesque. One does not improve the value of obligations for 10 billion dollars by retaining collateral for 3% of them. On the contrary, one weakens the credit of the debtor and impairs the standing of the debt. It was far better to use the surrender of the right to be subrogated as an inducement to a favorable settlement as was proposed in 1919 and 1920 and doubtless done in 1923.

FRENCH LOAN MATURITIES

The situation of the United States Treasury towards the French Government maturities was broadly speaking as follows: France was the battlefield. Our Army was there. The United States Treasury soon came to be in the position of having to apply to the French Government for francs in large and ever increasing amounts to cover Army expenditures in France. In March 1918 before any considerable French maturities were brought to the attention of the United States Treasury, the Secretary of the Treasury made an agreement with Mr. André

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[1] Reported in the Economist of March 19, 1921, page 599, and in the Financial Chronicle of April 9, 1921, page 1463. In a written parliamantary answer the Chancellor, Mr. Chamberlain, said: "There remain: pledged and subrogated sterling securities £93,215,034 and dollar securities £96,529,910; free sterling securities £17,919,863, and dollar securities £46,946,735."

[2] Hearings before Senate Committee on Finance on Refunding of Obligations of Foreign Governments, July 18, 19, and 21, 1921, part 4, pages 114, 119.

[3] Annual Report of the Secretary of Treasury for 1923, page 271, exhibit 47.

[4] A similar secondary agreement with respect to the disposition of French owned securities was obtained, but no right of subrogation.

Tardieu, the French High Commissioner, that the amounts which the French Government received from the United States Government in reimbursement of the sums advanced in France by the French Government for United States Army expenditures, together with any sums received by the French Government from other sources than those advanced from the United States Treasury to France, should be available to meet the interest and principal of the obligations of the French Government created before the entry of the United States into the war, or for any other like needs of the French Government in the United States. This agreement disposed in principle of the problem of French maturities in the United States. However, the problem of providing francs for the needs of the American Army in France was a very difficult one for both the French and American Governments and became increasingly acute as the anxious year 1918 wore on. The French Government was gravely concerned with the effect of the heavy note issue thus necessitated upon its currency and upon the position of the Bank of France. This appears in the correspondence between Secretary McAdoo and M. Clemenceau, then Prime Minister of France, and between Secretary McAdoo and President Wilson, correspondence which was published in the book by M. Synon on McAdoo twelve years ago. The problem in regard to the provision of francs for the American Army, and the protection of the French currency and of the Bank of France, against the heavy note issue thus necessitated, was dealt with by the establishment of deferred credits in favor of the Bank of France and for French maturities in the summer and early fall of 1918, supplementing the agreement of March 1918. The Treasury never asked or obtained subrogation with respect to any French owned securities, but it did ask and obtain the right to be consulted concerning the disposition thereof.

LEGISLATIVE HISTORY OF FOREIGN LOANS

Although there was no statutory limitation on his power to do so, Secretary McAdoo was most reluctant, for parliamentary reasons, to permit any of the Allied Governments to use the proceeds of United States Government loans to pay any of the loans which the Allies issued in the American market before the United States declared war, and he was always adamant in his refusal to lend money to take up the so-called Morgan demand loan. The legislative history is interesting. The debate on the First Liberty bond bill was very protracted, and the charge that Morgans and other bankers got us into the war and should not have their war loans paid by the Government was made again and again. It was not altogether clear whether the objection was to meeting the outstanding bonds of the Allies at maturity, or, as I incline to think, to buying them up in the market at a discount before maturity, or whether the objection arose from a fear that the bankers would receive a commission on loans made by the United States to the Allies, which of course they didn't and couldn't. The question was further confused with another suggestion that the proceeds of the loans made by the United States to the Allies should be strictly limited to purchases within the United States. However that may be, on the floor of the House Mr. Kitchin, the chairman of the Ways and Means Committee, in answer to a question on that very point, said in effect that he did not think that the old loans would be paid off by the Allies, but that we would buy the bonds of the Allied Governments and leave it to them (the Allies) to decide what they should do with the money; and his statement on that point was greeted with applause. The subject was discussed again and again in the course of the debate, and one after another of the leaders on both sides of the House said in effect the same thing that Mr. Kitchin said. The final conclusion seems to have been to leave the hands of the Treasury and the President and the Allies untied in this regard.

FIRST LIBERTY BOND BILL

After a protracted debate and amendments on other points, which as I have said left the power of the Secretary of the Treasury and the President and the Allied Governments with respect to maturities unrestricted, the House of Representatives passed the bill without a dissenting vote. There were 330 yeas, 1 present, 40 not voting, and no nays. And then the Speaker left the chair and voted "yea." Whether men had been for the war or against it, they were unanimous in wanting to win it, and in readiness to spend and lend the money of the United States to that end, and to the end of saving American lives. The various later Liberty Bond Acts contain no mention at all of any limitation about meeting maturities and no mention of any requirements with respect to collateral. Indeed, the First Liberty Bond Act required that the bonds of the Allies purchased by the United States contain in their essentials the same terms and conditions as those of the United States.

WAYS AND MEANS COMMITTEE

The Ways and Means Committee, which had charge of the Liberty Loan legislation, was a noteworthy one. Claude Kitchin, of North Carolina, who was chairman, had voted against the declaration of war, and explained his vote in a heart-stirring speech in which he said that he had reached that decision after mature thought and fervent prayer for rightful guidance had marked out clearly the path of his duty. He said, "I have made up my mind to walk it if I go barefooted and alone." But immediately after war had been declared Mr. Kitchin brought in the First Liberty bond bill with an unanimous report from the Ways and Means Committee. The ranking majority member of the committee was Henry T. Rainey, of Illinois, and among the other majority members were Cordell Hull, of Tennessee, and John N. Garner, of Texas. The ranking minority member was Joseph W. Fordney, of Michigan, and among the minority members were William R. Green, of Iowa, and Nicholas Longworth, of Ohio. The relations of the Treasury of the United States with that Ways and Means Committee were more or less continuous throughout the war period. They were relations of honor, trust, and confidence on both sides.

FIFTH OR VICTORY LIBERTY BOND BILL

In the hearing on the Fifth Liberty bond bill, February 13, 1919, Mr. Kitchin inquired what maturities had been paid. He was told that nearly 400 million dollars of maturities had been paid up to the preceding December 31, but that the Allies had other funds available to themselves in this country which were not the proceeds of United States Treasury loans, and that they had accounted to us for expenditures far greater than the amount of our loans. Mr. Kitchin and the members of the committee were satisfied and renewed and extended the authority to the Secretary of the Treasury to make loans under the Liberty Loan Acts. Except for the extraneous provisions with regard to the War Finance Corporation, they brought in an unanimous report on the fifth and last Liberty Bond Act as on the first. The House passed it with 348 ayes and 3 nays, 3 present and 74 not voting,[1] and, after protracted debate and disagreement in the Senate, the act became law on March 3, 1919, after President Wilson's first trip to Europe and after his party's defeat in the election of 1918.

1920 TREASURY REPORT AND RATHBONE ARTICLE

Summaries of credits established in favor of foreign governments, advances made to them and expenditures reported by them are contained in the Annual Report of the Secretary of the Treasury for 1920, exhibits 26 to 30, inclusive, pages 338–348, inclusive. They show payment of total maturities of about $353,500,000 by Great Britain, and $290,000,000 by France. On the other hand, they show dollar payments by the United States Government of about $450,000,000 to Great Britain and over a billion dollars to France for foreign currencies, *i. e.*, chiefly pounds and francs provided by them for the use of our armies abroad. This Annual Report for 1920, issued immediately after the conclusion of the period during which the war lending was wound up, gives a very full and accurate technical account of our Government's war loans to the Allied Governments. The best general account and exposition of the principles which governed our war lending is contained in an article published in Foreign Affairs in April 1925, by Mr. Albert Rathbone, who was in the Treasury in charge of foreign loans from January or February 1918 to some time in 1920, first as a member of the war loan staff and later as Assistant Secretary.

TREASURY PRECAUTIONS

The great nations that were associated with us in the war looked to the Government of the United States for loans for all their current requirements within the United States. On the other hand, the United States was obliged to look to them for francs and pounds and lire to meet our military expenditures abroad. The United States Treasury insisted that the dollar equivalent of foreign currencies provided to the United States by the Allies be used by the Allied Governments to meet their approved expenditures in this country to the extent it sufficed for the purpose. This greatly reduced the amount of the loans which the United States Government would otherwise have been obliged to make to the Allies. It also made it possible for the United States Government to emerge from the war, unlike the other belligerent governments, without any foreign indebtedness whatever. It amounted to a set-off of the amount of America's requirements for foreign currencies against the amount of the Allies' requirements for dollars.

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[1] Congressional Record, February 26, 1919, page 4343.

Another precaution which the Treasury set up for controlling its loans to the Allies was that they should not allow their bank balances in the United States to exceed an amount sufficient for the transaction of their current business. Therefore the United States Treasury would not lend money to the Allies without a statement of the amount they had in the bank. This was a wise and necessary limitation as a matter of administration, in order to obtain a better check on Allied expenditures and secure economy in borrowing and in the use of balances.

Another precaution adopted by the Treasury was to require the Allies to report all their expenditures here for approved purposes whether from the proceeds of our loans or from their independent resources.

INDEPENDENT RESOURCES OF ALLIES

This wise procedure insisted upon by the United States Treasury, highly advantageous to the interest of the United States and thoroughly sound and reasonable as it was, could not however obscure the fact that the Allies were possessed of great resources outside of our loans, and that the provision by them of francs and pounds and other currencies for the needs of our Army and Navy abroad was an absolute and indispensable necessity of the American Government. The foreign currencies they provided were not in any sense whatever the proceeds of our loans. On the contrary they reduced the amount of our loans. The same was true of other assets of theirs which were sold and produced dollars. The dollar equivalent of the francs and pounds and of those other assets was literally and absolutely the property of the Allied governments. It would have been as irrational and indefensible to refuse the Allies permission to apply what was in fact their own money to meet their maturities in this country as it would have been irrational and indefensible for the Allies to refuse to supply the United States with francs and pounds to pay our army and its expenses abroad.

BRITISH AND FRENCH POSITION CONTRASTED

British and French resources from sources other than the proceeds of our loans exceeded the amount of the maturities, and their approved expenditures, excluding maturities, materially exceeded the amount of our loans. The principal French maturities did not occur until a much later date than the British. The problem did not therefore become important for the French until they were accumulating credits against our army expenditures greatly in excess of their anticipated maturities. The British, on the other hand, had been financing all the Allies to a very large extent before America entered the war, and the demand loan and the February 1918 maturity, which in part grew out of this, became serious problems before corresponding credits were accruing to them on account of foreign currencies, etc. British maturities were larger and occurred earlier, and our need of pounds was far less than our need of francs. That perhaps explains the fact that the British maturities presented more difficulty than the French. There is much to be said for the view that, taking a retrospective view of the war loans, British as well as French maturities should have been regarded as payable out of the independent resources of the Allies, and their other approved expenditure as payable from our loans.

EVERY LAW AND PLEDGE COMPLIED WITH

Neither the British nor the French government was without resources. They had their own money. We didn't pay their bills. We bought their obligations. They transacted their own business They had their own bank accounts. They paid their own debts. They reported their transactions in due course to the United States Treasury and endeavored to meet its views. But the United States Treasury could go so far and no farther in pressing its views on the governments with which it was associated in the war. They were bearing the main burden of the fighting until the last few months. They were great and friendly and associated powers. The fact that we were lending them money gave us the duty of informing ourselves as to its use, but no right to dictate rigidly as to the use of the dollar equivalent of the foreign currencies they provided us for our use abroad. Secretary McAdoo in my opinion complied not only with the laws under which he was acting, but with every parliamentary pledge to the last word and with a heaping measure. And that was the view of the Ways and Means Committee, which had legislative responsibility in these matters.

THE LOANS THE TREASURY MADE

The Treasury treated its loans to the Allies as good loans which must be repaid. It firmly resisted any suggestion of cancellation whether at home or abroad, and general default on these loans did not occur until 1932 or 1933, fifteen years after they had been made, and after the general breakdown in Germany and indeed in Europe in 1931 had led to a general moratorium on reparations and war debts proposed by the United States. In the meanwhile two and three-quarters billion dollars had been paid by foreign Governments to the United States Government on account of its war loans, of which about three-quarters of a billion dollars was principal and nearly two billion dollars was interest, including four hundred thirty millions interest which may have been paid by borrowing during the war period. Great Britain alone had paid over $2,000,000,000 of which $434,000,000 was principal and France had paid $486,000,000 of which $226,000,000 was principal.[1]

It was the task of the Treasury to finance the war. It performed that task wisely, cautiously, and to the satisfaction of the Congress and of the American people. It was not the Treasury's task, nor had the Treasury the power or the opportunity to arrange the terms of peace, of reparations, of world recovery, after the war was over. The loans the Treasury made were wisely and cautiously made, and, given a rational peace settlement and rational policies, political and economic, of the nations of the world (including our own) after the treaties of peace had been signed, the loans would for the most part have been collectible. As it was, after a post-war interval, payment of principal and interest was maintained and no default occurred until fifteen years after the loans were made. It was not within the power of the Treasury to foresee or to guarantee the treaties of peace and world settlements, the policies of the nations, or the structure of Europe.

EXHIBIT No. 2953

[Copy]

File No. 841.51/82 Page 559

(*The British Embassy to the Department of State*[2])

[Received August 3, 1917.]

Paraphrase of a telegram from Mr. Balfour dated August 2, 1917:

Please give following message to Mr. McAdoo from the Chancellor of the Exchequer.

There is no doubt about the fact that our exchange is really Allied exchange. The exchanges of the Allies are entirely dependent on the maintenance of sterling exchange in New York although the exact figures are naturally not available but all the Allies are well aware of this.

At the present time we are supporting exchange only by means of dollars supplied by the United States Government. Only so long as such assistance is forthcoming can exchange be supported. We have no resources of our own except a trifling amount which would possibly be obtained by the sale of securities. We ought, however, unless there is an exceptional run on the exchange, to get through August without a break if in addition to the $185,000,000 for August we could be repaid for the sums advanced by us for expenditure incurred by Russia in the United States since April 1. The exact amount would be furnished by Lever. We estimate that before the end of August the amount would be about $100,000,000. Pending further means of a less temporary character which we hope to see applied in a month or two, this seems the best way of avoiding raising an awkward question at the present moment in view of the difficulty of explaining to Congress the true nature of the present difficulty and of getting them to realise the vital importance of finding a solution and of avoiding a crisis.

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[1] Annual Report of Secretary of the Treasury for 1935, page 423.

[2] Left with the Assistant to the Counselor for the Department of State (Auchincloss) by the British Ambassador. Note in files: "He will give original to Treas."

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File No. 800.51/10 Page 560

(*The Acting Secretary of the Treasury* (*Crosby*) *to the Secretary of State*)

WASHINGTON, *August 6, 1917.*

SIR: I beg to advise you that a credit of $160,000,000 was a few days ago established in favor of the French Government for the month of August, under which advances of $8,000,000 and $32,000,000 were made on August 3 and August 6, 1917, respectively.

Country	Loans and credits agreed upon	Loans made	Balance under established credits
Great Britain	$955,000,000	$820,000,000	$135,000,000
France	530,000,000	410,000,000	120,000,000
Italy	160,000,000	140,000,000	20,000,000
Russia	100,000,000	37,500,000	62,500,000
Russia	75,000,000	10,000,000	65,000,000
Belgium	45,000,000	22,500,000	22,500,000
Belgium	2,500,000	1,000,000	1,500,000
Serbia	3,000,000	1,000,000	2,000,000
Totals	1,870,500,000	1,442,000,000	428,500,000

Respectfully,

OSCAR T. CROSBY.

EXHIBIT NO. 2954

CONSEIL INTERALLIE DES ACHATS DE GUERRE ET DES FINANCES

SECRETARIAT GENERAL—2 RUE SAINT-FLORENTIN

SUNDERLAND HOUSE,
Curson Street, London, February 20th, 1918 (*Pencil*).

(*The President of the Inter-Ally council on War Purchases and Finance to the Secretary of the Treasury*)

I am informed by our Ambassador here that the ordinary code in which most of my messages are necessarily sent is almost certainly known to the British Government, and that probably these messages are decoded and reported to the British Government. In many cases, this is a matter of no concern, but occasionally it is desireble that they should be confidential. In this case, the Ambassador would put them in a special code which he thinks to be entirely safe; but a rule of the State Department runs against this usage, restricting the code in question to communications going directly to the State Department and is not permitted for communications to any other Department. It will consequently be necessary at times to resort to correspondence by mail, even though it might be desirable to use the cable.

In this connection, I desire to record my high appreciation, which I am sure you will share, of the great courtesy shown both in this Embassy and the Paris Embassy in respect to the large amount of cable work thrown upon their offices. Should the amount of this work increase, it may be convenient to have sent from Washington one of the ordinary code books so that time may be saved, which must occasionally now be lost, due to the fact that the Embassy code staffs are called upon for so much extra work and cannot at all times execute it as promptly as might be desired, in spite of the helpful spirit of the Ambassadors.

With the above explanation, I will now state a few facts which I have not cared to send in code:

1. While the British officials connected with the Council are showing great courtesy, and have had placed at the disposal of the Council a large building, Sunderland House (belonging to the Duchess of Marlborough), there has been a great delay until this moment in the furnishing of a London secretary. It was agreed at the first meeting of the Council here that the London secretary should be proposed to the Council by the British Government, and that proposition was accepted as it was presumed to be desirable that the secretary here should be

British, and consequently presumably better able to quickly get about among the departments, if necessary, for the carrying out of the Council's work.

Mr. C. J. Phillips, of the foreign office, who has been in Washington and who is a very capable man, was designated at first, but his other duties have prevented him from going on with the work between the meetings. He still attends the meetings, and is helpful in many ways. When it was found that he could not serve satisfactorily, Mr. Booth, serving with the Munition Ministry, a man of unusual ability and intelligence, was proposed; but he, likewise, finds that he cannot devote the necessary time to the work. It was next proposed that Captain George Lloyd, who was in Egypt, should return to England and take up this work. He has attended one or two of the meetings, but it is found that he also is not free for continuous work. It was next proposed that Major Monfries, financial secretary of the Commission Internationale de Ravitaillement, should act as secretary. He would be an excellent man, and his duties with the C. I. R. give him, a certain familiarity worh the work of this Council. The C. I. R. is, in effect, an organization for the examination of applications to the British Government by the French and Italian Governments, and goes into far more detailed investigations than has ever been attempted by our Government in respect to the applications made to it by the British, French, and Italian Governments. There was some objection to this plan indicated by the French, who have not been entirely satisfied with the work of the C. I. R., and there was doubt as to whether Major Monfries could perform both functions satisfactorily. The matter as I write, is still in suspense.

In the meantime, Mr. Booth has suggested that probably the best solution of the matter would be that Mr. Cook, of the Equitable Trust Company of New York, whose services have been mentioned to you in previous telegrams, should become the London secretary with an English assistant. Mr. Cook has made an excellent impression, and has been in every way most helpful. I am inclined to think this solution of the matter the best, although desirous of holding to the position that we should be glad to have the British satisfied, if they can find a proper person, by having one of their own people as London secretary. It has been impossible to execute the work of the Council efficiently on account of this long delay in having a permanent secretary here.[1]

I attribute the delay not so much to any conscious opposition on the part of the British to the general activities of the Council as to a certain lethargy about it, which is gradually giving way as they realize the value of discussions with other allied representatives concerning the details of their applications.

It is difficult to convey by cable in forwarding recommendations any idea of the amount of discussion and subsequent modification of details which takes place in the Council meetings and in intermediate discussions with the departments. Some real headway is being made, and will be more apparent, I hope, in dealing with the figures for the months following the month of March. I am expecting to telegraph you today or tomorrow the combined recommendations for February and March, although the month of February is nearly gone. The understanding is clear, that, while the Council may continue to discuss applications for the placing of orders as far in advance as convenient, yet the actual credits will be established only for month to month, or, if you can see your clear, for two months ahead, or, as in this case, for two months when one month is nearly gone. It is rather slow work to get the departments of all the Governments to present intelligently their orders to be placed, although the members of the Council now are getting into the spirit of the thing.

Concerning exchange operations in New York, I am satisfied that the British Treasury will not be keen to diminish the amount of sterling thus handled. As a matter of fact, I have learned in conversation with Mr. Booth that, in his judgment, one of the advantages accruing to the British Government from the present system is this that they obtain pounds at a cost of 4.76, and, assuming the future stability of their finances, these pounds will really be then worth 4.85 to the Government. We must constantly bear in mind that cotton, cereals, a large part of the oil and other similar articles, are resold to their citizens, thus giving the British Government a large domestic revenue against their long-time obligations made to us. It amounts to a diminished need of interior borrowing in Great Britain. Undoubtedly, the British Treasury is under great pressure in every direction, and its needs will doubtless increase, both internally and externally, as the war goes on. I am not now, therefore, criticising their action, but am placing before you some of the facts which must tend, consciously and unconsciously, to dampen their activity in lines which may be desired by us.

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[1] Pencilled note: NOTE—We wrote on Apr. 6 to Mr. Polk and Mr. Crosby in relation to Mr. Crosby being furnished a *code clerk* (filed in Inter-Ally).

In respect to some of the bills which our loans cover in part or in whole, it is pointed out that they represent purchases by British capitalists, whose properties in South America or other neutral countries must be kept going with American supplies. Railways, tramways and electric light operations in South America are thus, it is said, being provided with the necessary machinery, at least for upkeep, by placing orders in the United States, which orders would normally be filled by British manufacturers. The purchase in this case is one for British account, although the goods go to the neutral country. They are paid for in the beginning by drafts upon London, which constitute a part of the exchange operations which give us so much concern. It will be a certain alleviation of the situation if we can establish to what extent these bills actually cover American products, and I am hoping some progress may be made in that direction, now that the British are beginning to understand the importance of a study of the propositions even if it does not result in actual diminution of the sums involved.

Cable information has been sent covering the status of loans in neutral countries. The progress has not been very satisfactory. Hence, I was particularly concerned that the Spanish loan, which seemed to be nearly ripe in French hands, should not be frustrated by any action which could be charged against our Government unless that action was one of an imperative kind. I trust the explanation kindly sent by the War Trade Board in a recent cable, and which I have transmitted to the French Minister of Finance, will tend to relieve the situation if it is correspondingly understood by Ambassador Willard and by the Spanish authorities.

In general, the success of the efforts of Great Britain, France, and Italy to make these loans will depend upon the substance of the various agreements being negotiated, chiefly through the War Trade Board representatives so far as we are concerned, and through a considerable number of officials representing other Governments. There is a natural tendency on the part of the neutrals to hold back in respect to loans until these agreements shall have been concluded. It is my own belief that unless the negotiation of these agreements puts the neutral governments in an irritated state of mind, that the loans could be effected after the agreements were signed, on the basis of their interest in maintaining their commerce with countries which cannot pay in cash. It is the firm belief, however, of the British Government, and perhaps shared by those of our Government officials who are directly concerned in these transactions, that the loans and all relations between the belligerent governments and neutrals should be bound into one negotiation, as they could much more upon pressure than upon argument in dealing with these matters. There is now some reasonable fear that the approach of spring, which will alleviate the food conditions of countries, and the possible obtainment of food supplies by the northern neutrals through Russian-German sources, may tend to stiffen the position of the northern neutrals and perhaps render abortive much of the work heretofore done in endeavoring to establish loans for Great Britain and France.

Some of the British Treasury officials seem firmly convinced that a large part of the sterling exchange offered in New York represents free commerce still going on between Great Britain, France, and Italy on the one hand and the United States on the other. This, of course, would be very important if true, as it would show that the advances for exchange purposes, which might otherwise be subject to public criticism are, in fact, loans to facilitate American commerce. This view has only been recently advanced, and I shall now endeavor, with the figures obtainable from the boards of trade and chambers of commerce on this side, together with the reports available here of our exports, to make an effort to see how far this argument is well founded. I trust also that the examinations of exchange transactions now about to be made in New York will help also to clear the situation.

Respectfully yours,

[s] Oscar T. Crosby.

Exhibit No. 2955

MEMORANDUM ON RELATION OF THE UNITED STATES TO FOREIGN EXCHANGE

Honorable Oscar T. Crosby,
Assistant Secretary of the Treasury,
Washington, D. C.

Sir: Pursuant to your request, I submit herewith a memorandum relating to the question of the maintenance of a parity of exchange at a specified rate between the United States and certain foreign countries.

1. *Investigation made and material submitted.*—There are annexed hereto (a) statements showing regulations in force in the principal foreign countries with respect to gold movements and the control of the same; (b) statements showing balances of trade between certain of the principal foreign countries, compiled with a view to showing the relations between their trade balances and their foreign exchange condition.

2. The question at issue is: Whether the United States shall undertake to maintain sterling exchange, that is to say, the exchange on Great Britain, at a specified parity, approximating the rate of about 4.76 which has been established and maintained by British authorities for some time past. In this connection it should be noted that during the past twelve months the amount of exchange bought by J. P. Morgan & Company on behalf of the British Government was about $1,100,000,000, a large part thereof covering Allied purchases. It should be noted that at the present time the United States, by furnishing to the Allies funds with which to pay for their purchases in the United States, is changing the exchange problem to some extent, for the reason that it is thereby removing the necessity of providing the exchange with which to pay for these governmental purchases. In other words, the United States Government is practically purchasing in its own territory certain goods intended for the Allies, and is arranging the payments for such goods. Eliminating for the present any consideration of the payment of interest upon bonds representing such purchases or advances, it thus appears that the United States is eliminating from the exchange problem as heretofore presented, the goods bought on foreign account, although the effect of these purchases upon the exchange situation exerted through indirect channels is, of course, as strong as ever. The direct problem with which the United States would have to deal should it undertake to maintain the pound sterling at 4.76 would be that of providing exchange at the specified rate in amount sufficient to provide means for the settlement of balances of indebtedness growing out of the rest of the trade. It would also have to purchase all offerings at that or a lower rate. It should further be borne in mind that in undertaking this task the United States will also be undertaking to "stabilize" the exchange of those countries whose market is dependent on that of Great Britain, or which are in the habit of drawing sterling bills.

3. *Argument in favor of maintaining the rate.*—The argument in favor of maintaining a stable rate of exchange for the pound sterling, is that which has induced Great Britain to undertake this task heretofore. During the early days of the war, the pound sterling went down at one time to near 4.50, the result being that the purchasing power of the pound sterling in the United States was correspondingly lowered—that is to say, it would buy proportionately less of American goods as stated in dollars. It was considered desirable from the English standpoint to maintain the buying power of the pound sterling, and in addition it was believed that unless this were done the influence upon general commercial relations with the United States, produced by severe depreciation of this kind, would be exceedingly injurious. Furthermore, it was thought by many that the general effect on the financial market of such unfavorable quotations for the pound sterling would be bad, and that in consequence Great Britain's buying power and her credit in general would be seriously impaired. These considerations presumably hold good today, although the question is raised whether the United States has any such interest in maintaining the value of the pound sterling as Great Britain had. In support of the theory that it has, some assert that unless the equivalence is maintained, "loss of confidence" and market uncertainty will set in, and the result will be very decided injury to domestic financial conditions, as well as to those in Great Britain.

4. *Argument against maintaining the rate.*—The principal argument against maintaining the rate as specified is the cost involved in it and the general disarrangement of American foreign trade relations. Only very remote estimates can be given of the cost of conducting the operations, these depending essentially upon the extent to which interference with rates of exchange are actually carried into operation, not merely as regards trade with England, but with other countries as well. A more detailed estimate will be attempted a little later. At this point it should be noted that the probable effect of leaving the exchange to take care of itself would be that American shippers would demand that they should be paid in dollars because of the fact that only in that way would they secure a stable means of payment. They would not be willing to take the risk of a constantly descending quotation, so that unless Great Britain or the British banks were in condition to guarantee a stable rate, American exporters would want to be paid in dollars. They would be more likely to insist upon this be-

cause of the fact that American banks would not be willing to buy sterling bills freely. If the larger part of foreign dealings were stated in terms of dollars (dollar exchange), this would simply mean that the English banks would find it necessary to enter into negotiations with American banks, as was necessary, to persuade the latter to supply dollar credit. Then the question would arise whether American banks would do any such thing. If they would not, one of two courses would have to be followed by Great Britain—either gold would have to be shipped to pay for the unfavorable balances, or purchases on private account of the British Government would have to take over the duty of financing this private trade, as distinct from the Governmental trade. Assuming that the United States had practically committed itself to financing all of the war munitions, the question would then arise whether the British Government would undertake to supply the accommodation needed in order to enable its people to go on importing goods for private use, and, if not, whether the United States Government would be willing to increase its advances or loans in a corresponding degree. This would probably be the greatest advantage accruing from withdrawing the support now given to exchange—it would show clearly and unmistakably exactly where trade relations between the two countries now stand, and would make it possible to deal with them very much more intelligently than would otherwise be practicable. It would tend to cut off exports for unnecessary purposes which, in the present state of trade, would probably be a desirable thing to accomplish. It would also relieve the United States of a very large element of expense, as well as eliminate a troublesome financial operation whose management is almost certain to give rise in one way or another to criticism. It is not likely that the effect of "letting the exchange go" would be as injurious as is stated by some of those who desire to have the Government of the United States undertake to stabilize it for the reason that so large a proportion of the business now consists of supplies furnished for Government use, and because of the further fact that an increasing proportion of total outlay in international trade will undoubtedly be required for this purpose from now on.

5. *General considerations in connection with operation.*—It might very well be asked by other countries why the United States should undertake to maintain the stability of exchange with Great Britain and not with them, assuming that they had, or thought they had as strong a claim upon the aid and sympathy of the United States as that possessed by Great Britain. The maintenance of the pound sterling at a stable parity, while letting our exchange trade take care of itself, tends, of course, to protect the British international financial market at the expense of others, and to preserve in some measure the competitive power for the commercial contest which it is supposed will be inaugurated with the close of the war. On the other hand, should the United States undertake to maintain the British pound sterling at an agreed parity, the effort, as already noted, would necessarily imply the regulation of exchange and gold movements with respect to those countries which have heretofore made payments through London. It has already been suggested that this be done with respect to Japan in order to stop the recent shipments of gold to the Orient. If the United States were to adopt any prohibitive method of interfering with these shipments the effect upon our credit would be immediate, and our foreign trade would suffer accordingly. Indeed this is so obvious that most of those who have urged stoppage of gold exports to Japan have usually stated that they do not advocate any legislative or direct executive interference, but merely that obstacles of some kind should be put in the way of gold exports. It is not very clear what these obstacles would be. Apparently what the advocates of such a course have in mind is the stoppage of Treasury transfers to San Francisco and the establishment of banking conditions designed to restrict the disbursement of gold, etc. Such suggestions are apparently based upon English experience, but would be very difficult to carry out in the United States. The large quantity of gold certificates in circulation here renders it perfectly feasible for any responsible man with credit at the banks to obtain as many such certificates as he needs and then the question of obtaining gold is simply a matter of presenting them for redemption. Federal Reserve notes are in exactly the same position. The Federal Reserve banks have not been sufficiently developed to acquire any control over the real rate of discount in the various cities where they are located, and their branch systems are likewise undeveloped. Neither have they established themselves effectively abroad as yet; least of all in Japan or China. It would seem, therefore, that the only way in which the control spoken of could be exercised effectively would be through some action on the part of the Government designed to control and stabilize the exchange conditions with Japan and other countries just as it is suggested we should do as regards Great Britain. This would be a very large undertaking. The

attached figures for balances of trade have been compiled at the request of the Assistant Secretary, and indicate the scope which an attempt to control international exchange might possibly be compelled to assume.

Should the Government abstain from interfering with the course of exchange foreign countries which have balances in their favor will continue to be able to exact gold whenever they choose to do so. Most of them are not desirous of getting gold, as is seen by the experience of Spain and the Scandinavian countries, which have done everything they could to prevent American gold from entering in large quantities in recent months, their view being that such large importations tend to disturb prices and to affect general economic conditions somewhat unfavorably. The discontinuance of support for sterling exchange would tend to throw most of the transactions with Great Britain and this country or between this country and any others which habitually use the pound sterling as the money of account into terms of dollars, as the American exporter would, if exchange conditions were unstable, insist upon being paid in dollars. This would mean that the foreign importers' home banks would have to furnish credits with American banks. It is claimed that they would not be able to do this very long as American banks would not extend credit if exchange were unstable. (See pages 4 and 5 above.)

Assuming that such would be the case the transfer of the base of payment to the dollar instead of the pound sterling, and the limitation of the commercial bills current in the market to those which could be legitimately negotiated on a strict banking basis would be very desirable and would of itself tend to restore exchange to a normal condition.

The United States is now the only free money market in the world, and it ought to do nothing to place this desirable position in jeopardy, at least until definite circumstances of a kind unmistakably calling for some interference present themselves.

6. *Balances of trade and effect of exports.*—Reference has already been made in the foregoing discussion to the effect of the withdrawal of governmental support from exchange rates upon the movement of exports from the United States to Great Britain, and it has been suggested that such falling off as might occur would be wholesome, and the result of natural forces whose operation ought not to be wholly checked. Precisely how great a falling off would occur in this way can not be estimated with any approach to accuracy. The attached statistics afford some light upon existing balances of trade between the United States and other countries. They also afford at least conjectural information as to the amount of trade which might be checked or lost as the result of decline in exchange. It should be borne in mind that exports not taken by, say, Great Britain, will probably, as matters now stand with respect to demand and consumption, be taken by other countries. Precisely what rearrangement would be brought about in this way can be only conjectured.

A countervailing situation in connection with the checking of the export trade, may be seen in the item of freight paid for the transportation of goods in foreign vessels. How much this item is can not be known, and has always afforded a subject of controversy' the figures varying from $25,000,000 to $350,000,000. There is furnished herewith a table showing the total amount of exports for 1916, conveyed in various ways. If we assume that the foreigner pays the freight on goods sent to him (in the form of added prices), and if we further assume that the American buyer pays the freight on goods imported to the United States, while we allow a credit for freight paid on goods imported in American vessels, it will be seen that (reckoning the freight at 10% of the value of the goods) we would owe foreign vessel owners $162,494,000, while we would be able to claim a credit of about $66,469,000. On this basis, the offsetting item of freight paid to foreigners would be about $100,000,000 in round numbers.

7. *Military effect of reduction in exchange.*—Ever since the beginning of the present war unfavorable developments in British financing or banking have been noted in the German press, and have apparently afforded encouragement to the opponents of Great Britain. It may be suggested that a fall in British exchange, should it occur now, would greatly encourage or stimulate opposition to Great Britain. This might be true if it were not that the United States has definitely entered the war on the side of Great Britain, and inasmuch as American credit is now positively behind British credit, the effect of a fall in the rate of exchange could not be more than very superficial. So important a change in international financial conditions would, of course, cause comment at any time, but it is difficult to see how any real influence would be exerted by it, certainly in so far as thoughtful and careful observers were concerned.

Respectfully submitted.

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1916

[In thousands of dollars]

	Amount	Percent
Imports brought in cars and other land vehicles	234, 372	9. 8
American vessels	532, 342	22. 3
Foreign vessels	1, 624, 940	67. 9
Total gold imports	2, 391, 654	100. 0
Total exports carried in cars and other land vehicles	662, 796	12. 1
American vessels	664, 696	12. 1
Foreign vessels	4, 154, 022	75. 8
Total exports	5, 481, 424	100. 0

EXHIBIT NO. 2956

EXHIBIT 27.—*Summary by periods of credits established in favor of foreign governments, advances made to them, and expenditures reported by them Apr. 6, 1917, to Nov. 1, 1920*

Particulars	Total	Apr. 6, 1917, to Dec. 31, 1917	Jan. 1, 1918, to June 30, 1918	July 1, 1918, to Nov. 30, 1918	Dec. 1, 1918, to June 30, 1919	July 1, 1919, to Nov. 1, 1920
Credits established	$10, 138, 486, 908. 06	$4, 361, 400, 000. 00	$1, 745, 190, 000. 00	$2, 214, 986, 666. 00	$1, 516, 871, 574. 27	$300, 038, 667. 79
Deduct credits withdrawn	427, 961, 597. 50	125, 000, 000. 00	----------	----------	253, 434, 116. 00	49, 527, 481. 50
Net	9, 710, 525, 310. 56	4, 236, 400, 000. 00	1, 745, 190, 000. 00	2, 214, 986, 666. 00	1, 263, 437, 458. 27	250, 511, 186. 29
Cash advanced	9, 585, 823, 677. 18	3, 661. 129, 750. 00	1, 968, 305, 000. 00	1, 671, 604, 697. 70	1, 806, 245, 567. 86	478, 538, 661. 62
Deduct refunds and repayments	119, 540, 505. 93	5, 000, 000. 00	----------	----------	7, 570, 000. 00	106, 970, 505. 93
Net	9, 466, 283, 171. 25	3, 656. 129, 750. 00	1, 968, 305, 000. 00	1, 671, 604, 697. 70	1, 798, 675, 567. 86	371, 568, 155. 69
Expenditures:						
Munitions, including remounts	2, 493, 610, 324. 76	1, 055, 859, 622. 99	520, 205, 844. 77	571, 314, 006. 09	328, 531, 776. 39	17, 699, 074. 52
Munitions for other governments	205, 495, 801. 10	194, 800, 991. 99	8, 265, 819. 44	888, 657. 41	1, 540, 332. 26	----------
Exchange and cotton purchases	2, 644, 783, 870. 07	1, 615, 443, 955. 88	491, 166, 803. 65	60, 690, 746. 32	302, 402, 364. 22	175, 080, 000. 00
Cereals	1, 422, 476, 706. 14	362, 761, 098. 41	386, 921, 956. 94	467, 901, 495. 91	165, 384, 156. 38	39, 507, 998. 50
Other foods	1, 629, 726, 802. 57	177, 368, 572. 14	484, 893, 090. 59	367, 904, 188. 12	519, 695, 805. 12	79, 865, 146. 60
Tobacco	145, 100, 821. 27	----------	17, 738, 042. 23	66, 590, 415. 71	57, 047, 629. 54	3, 724, 733. 79
Other supplies	613, 107, 428. 61	100, 118, 025. 93	97, 587, 103. 33	133, 780, 162. 55	160, 953, 934. 10	111, 668, 202. 70
Transportation	136, 083, 774. 95	24, 726, 657. 88	32, 950, 246. 96	26, 895, 723. 30	35, 727, 417. 26	15, 783, 729. 55
Shipping	173, 397, 083. 77	61, 130, 706. 24	26, 650, 345. 45	25, 267, 600. 52	34, 991, 976. 72	25, 356, 454. 84
Reimbursements	1, 872. 914, 603. 92	513, 092, 972. 10	295, 019, 637. 42	656, 293, 286. 14	358, 955, 259. 42	49, 553, 448. 84
Interest	730, 504, 176. 91	113, 183, 247. 81	126, 720, 320. 62	195, 133, 159. 78	280, 324, 573. 52	15, 142, 875. 18
Maturities	648, 246, 316. 94	52, 616, 457. 87	119, 095, 997. 41	300, 142, 000. 00	60, 678, 561. 66	115, 713, 300. 00
Relief	538, 188, 329. 89	99, 983, 243. 16	55, 525, 860. 96	84, 600, 000. 00	251, 948, 555. 16	46, 130, 670. 61
Silver	267, 943, 388. 81	----------	64, 175, 995. 53	72, 447, 765. 41	131, 319, 627. 87	----------
Food for northern Russia	7, 029, 965. 94	----------	----------	7, 002, 538. 08	27, 427. 86	----------
Purchases from neutrals	18, 718, 579. 42	----------	----------	5, 864, 645. 90	8, 677, 987. 53	4, 175, 945. 99
Special credit against credits to be established for United States Government war purchases in Italy	25, 000, 000. 00	25, 000, 000. 00	----------	----------	----------	----------
Miscellaneous	168, 530, 575. 56	17, 063, 656. 40	29, 622, 501. 86	44, 916, 103. 11	57, 101, 464. 96	19, 826, 849. 23
Total reported expenditures	13, 740, 858, 550. 63	4, 422, 149, 208. 80	2, 756, 539, 567. 16	3, 087, 632, 494. 35	2, 755, 308, 849. 97	719, 228, 430. 35
Less:						
Reimbursements from United States credits to other governments	1, 872, 914, 603. 92	513, 092, 972. 10	295, 019, 637. 42	656, 293, 286. 14	358, 955, 259. 42	49, 553, 448. 84
Dollar payments by United States Government for foreign currencies	1, 490, 557, 111. 24	----------	368, 081, 995. 34	457, 047, 106. 55	495, 891, 378. 79	169, 536, 630. 56
Proceeds of rupee credits and gold from India	81, 352, 908. 06	3, 350, 000. 00	30, 486, 750. 00	33, 943, 000. 00	13, 573, 158. 00	----------
Total deduction	3, 444, 824, 023. 22	516, 442, 972. 10	693, 588, 382. 76	1, 147, 283, 392. 69	868, 419, 796. 27	219, 090, 079. 40
Net expenditures	10, 296, 033, 927. 41	3, 905, 706, 236. 70	2, 062, 951, 184. 40	1, 940, 349, 101. 66	1, 886, 889, 053. 70	500, 138, 350. 95

EXHIBIT NO. 2957

SEPTEMBER 26, 1918.

DEAR MR. PRESIDENT: I desire to submit to you certain considerations in relation to the foreign exchange situation which has received my careful and constant attention. In times of peace the foreign exchange problem though simple in its elements is in practice one of the most elusive and baffling questions of finance. Now, however, it has largely ceased to be a banking question and becomes a question of governmental policy and particularly of interallied relations.

I

Considering first the situation of the United States alone it is evident that our trade position is calculated to produce a depreciation of the dollar. The great bulk of our exports is now moving to the Allied Governments in Europe for the purpose of enabling them to prosecute the war. These exports are in effect sold on credit, since payment therefor in made from loans granted by the United States. The remainder of our exports are insufficient to offset the necessary purchases from neutral countries and from Allied Countries such as Brazil and Japan, and we have therefor a large adverse trade balance with them. The United States has not been a lending country in the past so that this adverse cash balance is not met to any considerable extent by the remittance to the United States of interest and dividends on foreign securities held in the United States nor by the sale of foreign securities so held. Freights on American ships carrying on foreign trade have not in the past been an appreciable source of revenue to the United States. On the contrary the transport of United States commodities in foreign bottoms has in the past been one of the methods by which the trade balances due to the United States have been settled. Heretofore foreign countries have not kept in the United States large cash balances and while at the present time these balances have reached greater proportions it is probably true that to a considerable extent these bank balances do not represent a permanent change in the policy of foreign countries in this respect but an unwillingness to draw these dollars when not actually required for home use at exchange rates which would show a very heavy loss to the foreign countries. Those balances may therefore be regarded in large part as an accumulated debt of the United States arising because of our past cash adverse balances and awaiting an improvement in the exchange rate for remittance to foreign countries. The following figures taken from reports which have been furnished me may be of interest as showing the amount of certain of such balances as of August 14, 1918, after deducting therefrom United States balances in such countries.

BALANCE ADVERSE TO UNITED STATES	
Denmark	$80, 426, 072. 29
Holland	58, 929, 006. 92
Norway	66, 335, 966. 58
Spain	29, 913, 459. 46
Sweden	34, 689, 963. 46
Switzerland	17, 111, 352. 77
Argentine	69, 180, 916. 26
Bolivia	3, 319, 431. 68
Uruguay	117, 457. 63
BALANCE FAVORABLE TO UNITED STATES	
Brazil	15, 146, 130. 51
Chile	10, 354, 000. 17
Peru	2, 741, 397. 29

II

Turning now to the international phases of the situation, the broad position was taken by the Treasury that it was a most important purpose to preserve the credit of the Allied Governments and to maintain their purchasing power in foreign markets so essential for the successful conduct of the war. Accordingly Great Britain and France and later Italy were permitted to support their exchange on the New York market. British exchange has been kept at about 4.76 7/16, French exchange until the past month or two at about 5.70 and Italian exchange since the conditions which the Treasury prescribed as prerequisite to its assistance have been met has risen from about 9.10 to 6.36. Recently the franc rate has improved from 5.70 to about 5.50 probably to a large extent as a result of the remittances to Americans in France of funds from this country.

Our support of these exchanges has involved in effect the United States standing ready to advance the funds needed to settle adverse trade balances of the countries named at fixed rates as between the dollar and the pound, franc, and lire, and hence, even if the cash balance of trade of the United States were favorable, a larger cash unfavorable balance of trade of Great Britain, France and Italy with the rest of the world would tend to depreciate the dollar as well as the pound, franc, and lire, in foreign markets. A good illustration is Spain, where though the cash balance of trade between the United States and Spain has been favorable to the former the balance of trade of Spain with Great Britain, France, and Italy has been in favor of Spain and the dollar, as well as the pound and franc has been at a discount. Nor can these trade questions be confined even within these limits because the favorable balance of trade of a country with one country can be utilized to settle its unfavorable balance with another and therefore it ultimately comes to a question of the trade balance of the United States, France, Great Britain, and Italy, with the whole world as affected by the collection of the principal and income of foreign investments, ocean freight charges, etc.

In the early part of the war payment for cereals, cotton and other commodities bought in the United States by the Allies were effected through the exchange market and the amount of our advances to the Allies used for the purchase of exchange were therefore very large. More recently arrangements have been made for direct payment for many such commodities and as a result of this change and the restriction of imports into Great Britain and France the advances for exchange purposes have greatly decreased.

III

Ordinarily adverse trade balances insofar as they are not offset by freights, income from securities or sales of securities are met by shipment of gold, and if through failure to meet them the currency of a country depreciates in the international market the tendency is for its imports to be checked and its exports stimulated. In both these respects the case today is entirely different.

Embargoes now in effect prevent settlement by gold shipment and it would be most unwise for the United States to permit the use of gold for that purpose in the existing conditions except to a very limited extent. The proper course is for the United States to put its house in order so that as soon after the war as possible it will be able to resume free trading and remove the embargo on gold exports. To accomplish this result its gold should now be carefully conserved.

Further under war conditions the question of checking imports and stimulating exports becomes complicated with questions of military necessity for supplies and shipping as well as with the question of blockade and other considerations as to the relations between the belligerents on both sides and neutral countries.

IV

I fully appreciate the disadvantages, both real and sentimental, of having the dollar at a discount. I realize the disadvantage of violent fluctuations in exchange. I am sure it is in the interests of this country and of other countries as well that the exchange should be at or near the gold parity of the respective currencies.

I am, however, equally convinced as to the necessity of avoiding action which, while improving the position of the dollar might have far more important ill effects in other directions. It is, I am satisfied, most necessary that the United States should support the financial credit of France, Great Britain, and Italy by continued support of their exchange on the New York market, notwithstanding that by such support the difficulties of our exchange problem are greatly increased.

It follows that action to meet the problem must be taken in concert with the Allied Governments in the light of the best information available as to their requirements as well as those of the United States.

V

In its efforts to deal with this problem the Treasury has first of all sought to secure fuller information as to its dimensions than has been available in the past. In the United States the figures gathered by our various Governmental agencies have been most helpful. Through the president of the Inter-Ally Council on War Purchases and Finance the Treasury has urged on the Allied Governments the importance of securing and making available to an Inter-Allied body information as to the transactions abroad of their departments and their nationals. Statements furnished by Great Britain in response to those requests have proved most useful and have at the same time indicated the importance of the factors which are not reflected in trade returns. A statement furnished by Great Britain of its trade and financial relations with ten principal neutral countries, six in Europe and four in South America, shows that for the second half of 1917 its import and export balance was adverse to the extent of £51,127,000. This was reduced by income from securuties, freights, etc., to £27,236,000, and of this total there was settled by sales of securities, shipments of gold and loans effected £23,673,000, leaving as the balance carried over or settled by arbitrage £3,563,000. British trade with Brazil, Argentina, Uruguay, and Chile showed for the half year an excess of imports over exports of nearly £24,000,000, but freights, interest, and dividends reduced this balance to less than £5,000,000. At the same time an apparent balance in favor of Norway of under £6,000,000 was increased to over £7,000,000 by reason of the fact that charter hire and goods purchased to keep them out of German hands but not shipped more than offset the freights, interest, and dividends due from Norway to Great Britain.

Our Army and Navy purchases in the neutral countries in Europe constitute a serious factor in the exchange situation. Upon the urgent representation of the Treasury, the War and Navy Departments and the War Industries Board are at present engaged in a joint effort to estimate the amount of such purchases for the current half year.

VI

As to remedies, the restrictions of imports and the increase of exports are beyond doubt the ideal ways of improving the exchange situation. The Treasury has urged upon other governmental agencies the importance of such steps and it is believed that real progress is being made in this direction. The question of restriction of imports had been taken up by the War Trade Board and Shipping Board primarily from the standpoint of tonnage but the exchange feature has now been taken into consideration, particularly in dealing between alternative sources of supply of needed imports.

The War Department has been asked to limit its purchases abroad to such commodities as can not be purchased in the United States except where tonnage limitations, labor considerations, or times of delivery necessitate foreign purchases. The attention of this and other departments has been directed to the fact that tonnage conservation is not necessarily accomplished by foreign purchases, as often the purchases involve the ocean transport of the raw material from which the product is made and also additional transportation of commodities necessary to pay for the excess cost of the commodities we purchase in foreign countries over the value of the raw materials.

The War Trade Board has established a bureau which will be charged with promoting exports within the limits of available shipping of such of our commodities as we do not require for war purposes.

The War Industries Board proposes to assist in this policy by granting priority to goods for export approved by the War Trade Board as desirable for the liquidation of trade balances.

The export committee of the National Foreign Trade Council is now engaged in the study of what goods can be best utilized for export and an excellent opportunity is afforded of putting to a war purpose, in the payment of our foreign balances, some part of the production of commodities otherwise non-essential to the community but which cannot be abruptly discontinued without danger to our financial fabrics and without looking up the money invested in plant and disintegrating the labor employed in the manufacture. I am convinced of the entire willingness of our people to discontinue the use of any commodity so as to permit its use to help win the war and as the result of the efforts which I have initiated, I trust that the people may ere long be asked to forego or to curtail the use of specified non-essentials with two-fold results, each of prime importance, (1) releasing such commodities for export and (2) inducing further savings by the people through giving up the use of the non-essential and the investment of such savings in Liberty bonds, all without financial loss to the investor or loss of accustomed employment to the laborer.

In connection with the question of exports delicate questions of international relations arise. As long as the policy of supporting the exchange of the Allied Governments is being followed exports are, from a purely exchange standpoint, almost equally valuable whether made by the United States or by the European

Allies. Those countries are now importing vastly more than they can export so that there is ample tonnage for any exports they are able to make. On the other hand the need of tonnage for carrying war supplies from the United States is so great as to make it difficult to provide shipping space for exports from the United States to European neutrals that do now own shipping, like Switzerland. The exports to all European neutrals contiguous to the Central Empires, whether or not they own shipping, are controlled by considerations of blockade. The possibilities of export to other parts of the world are limited to the outward voyage of the tonnage required to bring back needed imports to this country. Consequently it may often be desirable in the interests of the common cause that exports of a given commodity from Great Britain, France, or Italy to a neutral country should be permitted while exports from the United States should be forbidden. Our exporters in such a case are likely to feel that they are being discriminated against and placed at a disadvantage in the matter of after-war trade. Such problems can be solved with due regard to war necessities and legitimate trading claims only by the exercise of the soundest judgment unclouded by prejudice.

While it is improbable that our rapidly growing merchant marine can be counted upon as a means during the war of settling to any large extent our adverse trade balance it will no doubt lighten our burden of foreign freight payments.

Foreign loans and credits constitute a means of temporarily relieving the exchange situation and by postponement afford an opportunity to obtain permanent relief by means of proper trade measures. Realizing that the price of the dollar in certain countries has been adversely affected by our support of British and French exchange, we have urged with great persistence upon the governments of these countries the necessity of their obtaining neutral currencies through loans or credits or the sale of the foreign securities which they hold. The results achieved have been materially of aid in maintaining the value of the dollar in foreign countries. The loans or credits which Great Britain has secured in Japan, Holland, Argentina, Denmark, and Spain and France in Argentina, Japan, and Spain, aggregating many hundreds of millions of dollars resulted in keeping equivalent sums off the exchanges and when after the war these loans and credits will have to be discharged by Great Britain and France the problem will be one for them to meet and will only indirectly affect the United States. This country has effected so-called stabilization arrangements with the Argentine and Bolivia and other arrangements are in negotiation with Chile, Peru, and Uruguay. The effect of the Argentine arrangement was to stabilize the United States dollar in the Argentine and although before the arrangement was entered into it had become demoralized and the prospect was that it might be difficult, if not impossible, for American merchants to finance the purchase of Argentine wool, hides, etc., on any reasonable basis.

In connection with the arrangements concerning silver with the Indian Government arrangements have been effected whereby the Treasury is enabled to supply rupees for all civil and military purposes of importance in connection with the prosecution of the war at a slight premium over parity, although prior to this arrangement Indian exchange was almost unobtainable.

In connection with the Indian exchange it must be borne in mind that while on a gold basis, the actual currency is silver and the cost of providing that silver currency fluctuates with the price of silver. At the present level for silver, the price fixed for rupees barely pays the cost of laying down the silver coin in India.

An arrangement has been recently negotiated with Iceland under which the United States though not a party, will obtain certain kroner provided thereby. A Danish arrangement is now under negotiation. An arrangement with Switzerland was effected under which 75,000,000 Swiss francs were to be obtained (60,000,000 of which have already been furnished) by our Government for its army purposes at the par of exchange and negotiations for a further supply of Swiss francs are under way. A banking credit in Spain has just been obtained aggregating 250,000,000 pesetas. Other foreign currencies are about to be received in direct payment of certain of our exports and plans are being perfected to obtain if needed additional foreign currencies in this manner, and I expect to be able to make further important progress in this intricate and important question at no distant date. The improved military situation ought to make it easier for Great Britain and France to obtain further credits to relieve the situation and I am now contemplating steps which will release for use in Chile and Spain certain Chilian securities owned by Great Britain and Spanish securities owned by France which had been pledged in the United States.

VII

As a result of the various measures indicated I believe real progress is being made on wise, broad, and conservative lines. From tables recently published, the following figures as to the highest premiums quoted for various foreign currencies since our entry into the war and the highest premiums for July have been extracted and quoted. Premiums of September 6, 1918, have been added for comparison. You will observe the very marked improvement since July particularly in the cases of Spain and Switzerland in which countries arrangements have as already stated been consummated recently.

Currency of—	Highest premium reached between April 1917 and July 31, 1918		Highest premium, July 1918	Premium, September 6
	Percent	*Month*	*Percent*	*Percent*
Sweden	69.78	November 1917	33.58	25.00
Denmark	44.59	do	16.79	13.81
Holland	29.35	July 1918	29.35	18.16
Switzerland	35.28	May 1918	31.50	15.91
Spain	54.15	April 1918	42.75	19.17
India	23.30	September 1917	10.14	10.14
Japan	7.82	July 1918	7.82	9.57
Argentine	12.25	December 1917	5.61	5.20
Chile	78.24	June 1918	75.48	71.27

In the case of Brazil whose currency has been at a discount the lowest discount was 16.35 in January 1918 the lowest discount in July was 23.13% and the discount September 6th was 26.8 so that the dollar has appreciated since July in Brazil also.

The whole subject of foreign exchange is constantly before me and my advisers and receiving the attention its great importance demands. As I have indicated it involves considerations of governmental policy and international relations above and beyond commercial or banking considerations. Its successful treatment requires concerted action of the Treasury, the spending departments, the Shipping Board and the War Trade Board and also calls frequently for cooperative action on the part of the United States and the Allied Governments.

I am in sympathy with the purposes and objects Senator Owen has in view in attempting to create a Federal foreign exchange bank, but I am fairly convinced that the creation of such a bank at this time would be a grave mistake. Any division of responsibility and any unneeded multiplication of agencies, in view of the existing situation, would be most unfortunate and hurtful. Every day as the war proceeds, the necessity of concentration of authority to meet war conditions becomes more and more evident. The injection of a new instrumentality to deal with foreign exchange problems would be a decided step backward. If its jurisdiction were co-extensive with that of the Treasury confusion would result and progress would be most difficult. It is not needed as an instrumentality of the Treasury for by reason of the character of the problem the Treasury can deal with it better directly than through any such instrumentality. The results recently achieved in Spain could not have been effected through a governmental institution because of the unwillingness of the Spanish Government to assume an attitude which it felt would not be strictly neutral. It was unwilling to countenance loaning money to a belligerent and a transaction had to be arranged providing for the utilization of the credits effected through the instrumentality of banking institutions. The same attitude may, I apprehend, be taken by other neutrals and the existence of the new instrument would not afford a medium for consummating such arrangements as have been made with Spain, but would make the employment of any other medium more difficult. I believe also that such a bank would require a steady supply of gold to transact its business and meet its commitments, and I regard any such contingency with the gravest concern when upon the continued financial support of the United States the fate of the war largely depends and this support is in turn dependent upon the confidence of the people of our country in our financial strength and our ability to solve our financial problems. I believe it would be impossible for such an institution to strike at underlying causes, and I believe that the Treasury is better able to deal with the problem (which as stated I conceive to be one of broad governmental and inter-Allied policies rather than merely a commercial or banking question) in its correct proportion and relation to other war problems than any agency newly created and dealing with only one phase of the commercial and financial situation could possibly be.

For these reasons I am convinced the creation of a Federal Foreign Exchange Bank under existing war conditions would be a grave error and I have felt it my duty to lay my views and the facts on which my views are founded somewhat fully before you.

Cordially yours,

[s.] W. G. McAdoo.

The President,
The White House.

Exhibit No. 2958

June 14, 1917.

Sir Hardman Lever,
Financial Secretary to the British Treasury,
New York, N. Y.

Sir: In connection with the additional advance of $25,000,000 which Secretary McAdoo made to your Government today and which has been witnessed by papers similar to those heretofore passing between your Government and this Government, I would like to state that the Secretary would be glad to have some further explanation of the item of $250,000,000 (round figures), exchange on London, and appearing in the memorandum handed to him by you today headed "Summary of Munitions, supplies, ships, and interest payments for the account of his Britannic Majesty, April–May, 1917."

The figures thus represented in answer to my verbal request made several days ago throws much light on the situation, but is not yet sufficient save with the explanation which you gave in conversation today. May, I, therefore, beg that you will now give in concise form those explanations so that the matter may be laid before Secretary McAdoo.

With much respect, I am, my dear Sir Hardman,

Very truly yours,

——— ———.

Exhibit No. 2959

Plaza Hotel,
New York, June 15th, 1917.

Hon. Oscar T. Crosby,
Asst. Secretary of the Treasury,
Washington, D. C.

Sir: In reply to your letter of the 14th June, in which you refer to a memorandum handed you by me, headed "Summary of Munitions Supplies, Ships, etc.", including an item of $251,000,000 (round figures) "Exchange on London", I beg to confirm my verbal statement made to you, namely, that this exchange item, being London exchange purchased in New York, includes and necessarily represents, to a large extent, drafts covering the purchase of wheat and other cereal products for the joint account of France, Italy and the British Government, cotton for use in Great Britain, meat and meat products, fuel oil and gasoline, and many other similar purchases made by or for our Admirality and War Office Departments in the American market.

I desire to add that as the whole of the shipping tonnage from this country is controlled and regulated by the British Government, only such supplies as are necessary and vital for the conduct of the war find space, and the goods paid for in the shape of exchange are therefore limited to these vital war necessaries and all the tonnage used for this purpose.

As explained to you, the cereal products are extremely large, and I am informed by the representatives of our Wheat Commission that in the month of June our total cereal and cereal purchases in North American markets will represent upwards of $130,000,000.

Trusting the foregoing supplies the information you desire, I am,

Yours very truly,

[s.] S. Hardman Lever,
Financial Secretary to the Treasury.

EXHIBIT No. 2960

JUNE 21, 1917.

Sir HARDMAN LEVER,
c/o British Embassy,
Washington, D. C.

DEAR SIR HARDMAN: Again referring to the memorandum left with me some days ago and headed as follows: "Summary of Munitions, Supplies, Ships and Interest Payments for Account of His Britannic Majesty's Government April–May 1917", may I ask that you be good enough to indicate to whether or not all of the Russian expenditures except those shown in the footnote were paid as against the Morgan list of Russian contracts, for which a British credit has been extended? May I further ask to what extent the purchases of cereals made for Italy and France were repaid to you?

Referring to your kind note of the fifteenth instant from the Plaza Hotel, I suppose it may be assumed therefrom that the $251,511,439.63 indicated in your memorandum under the heading "Exchange on London", represents substantially in its entirety recent purchases of materials for shipment either to Great Britain, Italy, or France, and is not of the character of exchange recently discussed by us as due to the purchase by you of bills upon London resulting from the withdrawals of banking funds by American leaders in the London market.

The memorandum as a whole, perhaps, would be more useful in preparing probable future monthly operations of your Government as a purchaser in our market if the month of May were separated from the month of April; or shall I assume that the total, $582,556.09, shall be divided by two as a close guide to the monthly expenditures.

Trusting that you will be able to cover these inquiries with but little inconvenience to yourself, I remain

Very sincerely yours,

[s.] OSCAR T. CROSBY,
Assistant Secretary.

[Pencilled note: $582,964,556.09?]

EXHIBIT No. 2961

PLAZA HOTEL,
New York, June 25th, 1917.

Hon. OSCAR T. CROSBY,
Assistant Secretary of the Treasury,
Washington, D. C.

DEAR MR. CROSBY: In reply to your letter of June 21st, received by me on the 23rd, I will have enquiries made and let you know as to whether or not all of the Russian expenditures, except those shown in footnote referred to by you, were paid as against the Morgan list of Russian contracts.

In regard to your second question as to the expenditures in connection with the purchases of cereals made for Italy and France, which are repaid to us, I have to advise you that we received in respect of cereals and sugar during the period from France $32,000,000 and from Italy $11,942,958.

In regard to your third question, you are correct in assuming that substantially the whole of the exchange item represents purchases of materials for Great Britain, Italy or France, and that the withdrawal of banking funds or sterling balances in London, to which I referred, occurred in the month of June.

In reply to your last question, I do not think that it would be a close indication of our monthly expenditures were you to divide the sum of $582,964,556 into two, as it is my belief that our payments for several of the months in the ensuing year will show considerable decreases, this particularly due to the fact that the cereal purchases do not occur in the same volume every month, and that we have periods of comparative freedom in this respect. Further, I do not anticipate that we will be purchasing anything like the quantity of finished munitions which we shipped during the months of April and May.

Very sincerely yours,

[s.] S. HARDMAN LEVER,
Financial Secretary to the Treasury.

EXHIBIT No. 2962

FEDERAL RESERVE BOARD,
Washington, December 13, 1917.

DEAR MR. LEFFINGWELL: With respect to the memoranda of Mr. Strauss and Mr. Davis, dealing with the exchange question, I should like to express my personal views, inasmuch as I do not know whether it will be possible to get an expression from the Board within the next few days, Governor Harding being away, and I know that you are anxious for a reply.

Generally speaking, I have held the view right along that we should lay down to our Allies the exact measure constituting the top amount of the credits that we can grant them, and then it will be their concern to use these credits in such a manner as to cover *all* their purchases in our country, including foreign exchange. In other words—that they must control the outsider, the purchaser who contracts in this country for goods independent of the purchases by the Government. It is he who creates half of our difficulties. Italy is a case in point. If we help Italy "to maintain her exchange", it simply means that we are helping the outside Italian purchasers in settling their purchases at not too great a loss. Unless foreign governments control these outside purchasers by conditions to be imposed by such foreign governments, the foreign exchange question will never be under control and our credits opened to our Allies will always be exceeded.

When this question of the outside foreign purchaser has been settled, there remains only the question of Government purchases by our Allies in foreign countries, for which American credit is used as a means of payment. Financing of these foreign purchases is dangerous because it is apt to drain our own foreign balances and interferes with the circle which money must describe in this country. Money raised by loans and spent by foreign governments in this country returns to the depositor and thus keeps intact the basis for our loan operations. If, on the other hand, we permit our own foreign balances to be consumed by our Allies, we shall be faced, sooner or later, with a very critical condition of being forced to pay in gold for certain things which we require for the prosecution of the war. The consequences of such conditions are obvious.

It is therefore necessary to permit our Allies to use our credits for purchases abroad only when we agree upon it in advance and when our Allies and we have reached a definite conclusion that there is an absolute necessity for our paying for these foreign goods. In that case, however, I wonder if it would not be the safest way for us to demand that we pay for these goods ourselves instead of buying exchange afterwards. Let England be the purchaser and distributor of goods for the whole allied European group; but when it is a question of buying Canadian wheat or Argentine wool or meat for the European allied group, and American credit is to be used for such purposes, let us buy those goods ourselves and sell them to England against England's bond, for distribution amongst the Allies in Europe.

What I am after is this—that we ought to have a direct connection with the purchase of goods and thereby better control the spending of the money. By adopting this method, we shall be consulted first, while now the money is being, spent first by outside purchasers, as above outlined, or by foreign governments and we are being faced with the fact afterwards when the harm has been done and when we have to buy bills of exchange indiscriminately without exactly knowing what has brought about the accumulation of sterling exchange in our market. The organization that we are about to create for the purpose of controlling exchange transactions will tell us a good deal in this respect, but I do not see how it can obviate the present condition—viz, that the transaction will go through first and that we shall then be dealing with the exchange transaction as a "fait accompli."

The two measures that I propose would cure the situation They are: first, request definite control by our Allies of all foreign purchases by their nationals in neutral countries and in our country; second, insist on direct purchases by the United States of such goods as are to be financed by means of American credit.

Needless to repeat that it is of the most vital importance to relieve us as far as possible of the necessity of paying for these foreign purchases and to push in every way possible negotiations for having neutral countries sell goods on credit arrangements just as much as we sell our goods on credit at this time, or have our Allies restrict their foreign purchases where credit cannot be arranged.

Very truly yours,

[s.] PAUL M. WARBURG.

Hon. R. C. LEFFINGWELL,
Assistant Secretary of the Treasury.

EXHIBIT NO. 2963

JUNE 26th, 1917.

The PRESIDENT,
The White House.

DEAR MR. PRESIDENT: I have just had a telephone conversation with Secretary McAdoo at Buena Vista. He desires me to ask an appointment with you tomorrow morning in order that I may explain to you certain facts connected with the loans already made and now being negotiated to Great Britain and other belligerent powers. There is just now very urgent demand from Great Britain for additional funds which Secretary McAdoo is unwilling immediately to advance, and he thinks it desirable that the situation should be laid before you.

Awaiting your commands, I remain

Very respectfully,

(Signed) OSCAR T. CROSBY,
Assistant Secretary.

EXHIBIT NO. 2964

(Pencilled) JULY 5, 1917.

MEMORANDUM OF CONFERENCE HELD IN THE OFFICE OF ASSISTANT SECRETARY CROSBY ON JULY 4, 1917

There were present Lord Northcliffe and Sir Richard Crawford; Messrs. Tardieu, Simon, Casenave, and De Bille; Messrs. Crosby and Leffingwell.

Mr. Crosby stated at the outset that it was not expected that any conclusions on the part of any of the governments represented would be reached in the conference, and particularly emphasized the fact that he had no authority to make or even indicate any commitments of the Secretary of the Treasury whatever, nor to foreclose in any degree whatever further inquiries that might be directed by the Secretary of the Treasury to obtain infromation desired by him for his guidance in the exercise of his discretion under the said act. It was hoped, however, that the conference might produce certain results which, when reported to Secretary McAdoo, would facilitate his action on the important matters involved.

Mr. Crosby stated that not only the two foreign Governments represented in the conference, but also the Governments of Italy, Russia, and Belgium were pressing for immediate replies to requests for cash advances on the following day, July 5, and that it seemed well that a better understanding of the financial needs and abilities of the various parties should be had by the conference in question. He then stated that of the $3,000,000,000 that the Secretary of the Treasury was authorized, at his discretion and with the approval of the President to lend to belligerent Governments, $1,000,000,000, in round numbers, had already been allotted, and it remained for the Secretary of the Treasury to consider the wisest disposition of any such balance of $2,000,000,000 as he might determine to lend for the purposes indicated in the act. He then recalled the statement of Secretary McAdoo to Lord Northcliffe made in a conference held on the previous day that the Congress of the United States would probably adjourn in a relatively short period, and would not, unless called in special session, reassemble until December 1917, and that therefore there would probably be no further congressional authorization, even if requested by the Executive, for loans to foreign governments until approximately the first of January 1918. The requests of other governments, as presented to the Secretary of the Treasury, were discussed and opinions were asked of the foreign representatives present in the conference concerning the political and military situations of Russia and Italy and the corresponding attitude which any belligerent associated in the war and capable, by presumption, to lend money to its associates in the war should take in view of those conditions. Particularly the request of the Russian Government for 30,000 freight cars and 1,500 locomotives, in addition to 10,000 cars and 500 locomotives already negotiated, was discussed, and all the foreign representatives present were of the opinion that grave doubt existed as to the advisability of appropriating from limited funds the sums necessary to meet these requirements.

The discussion then turned upon the question as to whether the Governments of Great Britain and France would prefer any sums the Secretary of the Treasury might deem available for loans to those Governments to cover the remaining six months of the year 1917, or a shorter period, their attention being directed especially to the fact above noted, as having been stated by the Secretary of the Treasury that congressional action before January 1st was not probable. It was agreed between the representatives of the two Governments mentioned that they would confer upon the matter and indicate their own views on this point at a relatively early date.

In respect to the matter of British exchange, Mr. Crosby asked whether the British Government expected that the United States Government would be called upon for money to assist in the maintenance of the existing rate. Lord Northcliffe answered: "That is our business." Mr. Crosby then asked whether the British Government expected the Secretary of the Treasury to be requested to assist in payment of the $400,000,000 of bank overdrafts standing against the British Government among various New York bankers. Lord Northcliffe answered: "That also is our affair. It will not come up to you."

("EXHIBIT NO. 2965" appears in text on p. 9116.)

EXHIBIT NO. 2966

TREASURY DEPARTMENT,
THE SECRETARY OF THE TREASURY,
August 16, 1917.

DEAR CROSBY: Here is a most interesting letter dated August 14 from Governor Harding on the foreign exchange situation. I wish you would read this, guarding it with your own eyes for the time being. I have asked Governor Harding to submit any further views he may have on the subject so that we may all get together for further discussion of the matter at the earliest possible moment.

Cordially yours,

——— ———.

FEDERAL RESERVE BOARD,
OFFICE OF THE GOVERNOR,
Washington, August 14, 1917.

DEAR MR. SECRETARY: In accordance with your request, I have devoted during the past two months as much time as was available to a study of our foreign exchange situation.

The total gold stock of the United States is now about $3,086,000,000, but the rate of increase in the country's gold supply has been less marked during the present year than it was in either 1916 or 1915. From January 1st to June 30th our imports of gold have amounted to $478,165,000 and our exports to $202,534,000. Of our total imports $453,487,000 have been from Great Britain and Canada, and our exports have been principally to—

Spain	$53, 722, 000
Scandinavian countries	----------
Japan	84, 926, 000
India	3, 016, 000
Mexico	4, 777, 000
Cuba	14, 159, 000
Other Central American countries	685, 000
South American countries (chiefly Argentina)	32, 141, 000

American exchange, which will be referred to hereinafter as dollar exchange, is at a discount in Spain, Switzerland, Holland, Norway, and Sweden, and this discount of 14.8%, 13.5%, 4%, 12.1% and 18.8%, respectively, has no relation to the trade balances. Spain and the Scandinavian countries especially appear to have a surfeit of gold and have practically demonetized it by stopping its coinage and by placing it on a commodity basis. American exporters to these countries usually draw in sterling, while our importers are required to make payment in terms of the currency of these countries, the balance of trade running heavily against England in all three countries; hence exchange on London is at a discount, or conversely, pesetas and kromen are at a premium. Sterling exchange is pegged at a fixed price, $4.76–7/16, by the British Government in the New York market, which is the world's highest market for sterling. Consequently, holders of sterling bills all over the world send them to New York for sale. A shipment of gold from the United States to European neutral countries is an expensive and risky operation; and, while it would be possible, if dollar exchange alone were considered, to ship enough gold to restore the parity of the American dollar in neutral countries, it is not practicable nor desirable to ship gold in sufficient quantities to restore the parity of pounds sterling and francs, with which currencies the American dollar is associated in the minds of the neutrals, and which, under existing conditions would have to be fully protected before dollar exchange could reach its parity. It would seem therefore, that it would be desirable that the close interlocking relationship between the dollar, the pound sterling, and the franc undergo some modification.

Let us consider the Spanish situation first. We are approaching a time of year when there will be large shipments of cotton to Spain, principally to Barcelona. These shipments are usually financed through British banks, and a shipper in New Orleans or Savannah draws sixty or ninety days bills in sterling, with documents attached. This draft is accepted, we will say, by the Bank of Liverpool and sent to New York for sale, where it is purchased, let us assume, by the Guarantee Trust Company or the National City Bank. It is then forwarded to London and discounted by the Bank of England, the proceeds being placed to the credit of the New York bank. The ultimate payment of the draft is a matter entirely between British and Spanish nationals, but the proceeds being placed to the credit of the New York bank as soon as received by the Bank of England, the balance in London of the New York bank is correspondingly increased. The New York bank has two ways of withdrawing its funds from London: (1) By having the gold shipped to it; (2) by selling its own draft against its London balance.

Even in cases where the governmental consent is given to the shipment of gold, the operation is very expensive on account of the high cost of transportation and war risk insurance, so that as long as the British Government is prepared to buy sterling bills in New York at $4.76–7/16, shipments are not requested. The bank of Liverpool of course, would get its reimbursement in Spain, and its balance in that country would be available as an offset in the exchange transactions between Great Britain and Spain. But as far as our American business is concerned, the situation would be greatly simplified if we had a strong American bank doing business in Spain, which would finance the required credit for the Barcelona cotton merchant, and direct drawings on this side to be made in pesetas. Assuming the American bank so established to be a branch of either the Federal Reserve Bank or of some strong member bank, the proceeds of these peseta drafts in Spain would be available to be drawn against in pesetas in favor of American importers who might have peseta bills to Pay in Spain. And I may say here that I have been assured by Mr. Vanderlip that the National City Bank of New York will make application to the Federal Reserve Board in the near future for permission to establish a branch at Madrid and one at Barcelona. The situation in Holland and the Scandinavian countries, however, does not admit of so simple a solution and will be discussed later on in this memorandum.

You have, I understand, received information to the effect that during the present year purchases of sterling exchange in the New York market for British Government account in order to maintain the arbitrary rate of $4.76–7/16, have averaged about $40,000,000 per week. These purchases do not represent the entire volume of sterling bills that have been offered in the New York market, but represent rather the excess which it has been necessary to provide for in order to maintain the rate. It follows, therefore, that had the volume of sterling bills in New York been decreased to the extent of $40,000,000 per week, the ordinary commercial demand would have taken care of the market, and that purchases by the British Government would have been unnecessary. At the present rate, in order the stabilize the exchange market, purchases of sterling in New York by the British Government will, during the course of a year, amount to $2,400,000,000.

I shall assume that the credits which will be granted the British Government by the American Government during the twelve months beginning May 1st, last, will aggregate at least this amount, but you are in a better position to judge of this than I am. Two questions now naturally present themselves:

(1) Is it to our advantage, all things considered, that the rate on sterling bills be maintained or should the rate be permitted to find its own level:

(2) If it is desirable to maintain the rate on sterling, should the United States advance the necessary money and credits to the British Government to support the market with the present volume of bills offering, or is it preferable to reduce the volume of sterling bills to a point where the market could be more adequately supported by commercial demand by increasing the volume of dollar exchange or American bills?

We laymen should bear in mind that the conversion of the money of one country into that of another, even though it be done by drafts or bills of exchange, without involving the use of any actual money, is an expensive process and a profitable one to the bankers handling the transaction. Take the typical Spanish transaction above referred to, for example. There is an exchange between Barcelona and Liverpool, between New Orleans and New York, between New York and London, between London and Madrid, and finally between the Baltimore or Boston importer and New York, thence to Madrid. Direct dealings by American exporters and importers with their correspondents in foreign countries in American dollars would save most of this exchange charge, and for this reason it is natural that many of the most expert foreign exchange bankers are averse to building up dollar exchange by reducing to a corresponding degree the volume of sterling bills. For instance, Mr. Fred I. Kent, vice president of the Bankers Trust Company of New York, writes me that there is no question in his mind that the present method must be so controlled through restrictions, that it would be just as safe and much simpler of operation than the plan of increasing dollar exchange, and that, in his opinion, the present method should "by all means be continued." Mr. Benjamin Strong, Governor of the Federal Reserve Bank of New York, and former president of the Bankers Trust Co., writes me that "the simplest and most effective method would be for the Government of the United States to make sufficient advances to the British Government to enable it to continue its policy of purchasing exchange through the existing machinery, so that no disturbance whatever would arise, nor would any publicity develop which might be interpreted by enemy governments as evidence of growing weakness."

"The other alternative, *which seems less desirable*, would be for the British Government to take over control of the purchase of practically all commodities now being furnished by this country, making all contracts payable in dollars." Neither Mr. Kent nor Governor Strong takes the position that it is impracticable to reduce the volume of sterling bills by increasing that of dollar bills, but they agree that the maintenance of the existing method is preferable. Their letters to me on this subject are in my files and are available for your use.

One of the members of the Federal Reserve Board holds the view that it would be to the advantage of the United States if the rate on sterling in New York should go to pieces, on the theory that prices of goods in America would be reduced thereby to American consumers, because their prices to the foreigner would advance and demand for export would thereby be diminished, and there would be a greater supply of goods available for American consumption. Other foreign exchange experts, Mr. Kent in particular, are of the opinion that it is necessary for the best interests of this country that rates on sterling be maintained, even though it be necessary for our Government to make special loans to the British Government for this purpose. Mr. Kent holds, and in this view he is supported by Governor Strong, that this country has so much more to gain by supporting sterling exchange than the British Government has, that it might be considered as being almost immaterial to Great Britain. Mr. Kent points out that by raising prices the citizens of Great Britain would have to pay for goods purchased from us, due to the higher price of dollar exchange, they would be obliged to reduce their purchases in this country to a great extent and would ultimately have to discontinue them altogether. The United States would be injured because we would lose a market for many commodities which Great Britain naturally takes from us, such as wheat, and particularly cotton, and that the war expense of the United States would be increased by the extra amount of material which we would have to supply for war purposes at our own cost which Great Britain would otherwise pay for. I quote from Mr. Kent's letter the following:

"If part of this material is paid for by the British Government through giving its notes to the United States with sterling exchange maintained, Great Britain will be able to purchase such commodities and use them in such manner as to keep her army up to the highest state of efficiency. If we make it impossible for Great Britain to buy our cotton the injury to our southern planters, even though great, would be nothing compared to the probable additional loss in men and money that would fall upon the United States, because our Army would have to take the place of such part of the British Army as could not be properly equipped by Great Britain, and the war expense of such additional troops, both in men and money, would fall upon the United States. Again the stoppage of the buying power of the British people because of the fall in the sterling exchange that would certainly take place if it is not maintained by our Government would not be recognized in all its seriousness until after a certain lapse of time, possibly a month or two, or maybe more, when it began to be felt through British inefficiency at the front. Whatever time the war may last, therefore, provided Germany does not win, would be lengthened by such period.

"In 1916 we shipped raw cotton to the value of $543,529,808. Of this total $272,787,051 went to the United Kingdom. In the same year, 1916, we exported wheat to the value of $226,746,370, of which $87,876,853 went to the United Kingdom. The natural season for the exportation of these commodities and others which need not be mentioned is about to begin and it can readily be seen that if sterling exchange is allowed to drop now that serious results might ensue. The temporary unsettlement and derangement of business that might arise could easily assume tremendous importance and would unquestionably do so unless the condition were anticipated and met at once, and this could only be done through additional loans made by this Government that would actually be taking the place of those which it is now called upon to make in order to maintain the exchange. It must be borne in mind that due to the triangulations of exchange the maintenance of sterling exchange has a beneficial and steadying effect upon the exchanges of France and Italy and other countries, and if sterling is allowed to drop it may make dealing between these other countries and the United States, except through loans made by this Government, not only difficult but impossible. We might therefore be called upon to help the French Army, for instance, in a much larger way than will otherwise be necessary. It must be remembered that Great Britain is making loans to other Allies, all of which strengthen our position in the war. The total excess of merchandise exports for the calendar year 1916 was $3,089,769,254, and for the first five months of 1917 amounted to $1,472,246,108."

And I quote this from Governor Strong's memorandum:

"The consequence of a collapse of sterling exchange should be viewed from two standpoints; one political or military—and the other economic.

"The political or military effect is all comprehended in the statement that it would be regarded in Germany as equal in value to a great military victory.

"Germany's credit with neutral countries has been gradually drying up, the most recent evidence of this development being the enforced export of gold by the Reischbank. On the other hand, the credit of the Allies in neutral markets and particularly in this country, has been maintained largely because of the skill with which the international finances of Great Britian have been managed, but still more because of world-wide confidence in the wealth of Great Britain and the stability of its finance.

"A breakdown in sterling in the various markets of the world would be interpreted as a failure of British credit and as evidence that the allied powers had reached the end of their economic resources. The extent of the encouragement to the enemy can hardly be measured. It would reach all classes, would have a correspondingly depressing effect upon home population, and no doubt considerable effect upon the political attitude of neutrals. This last consideration is not to be ignored at the present time when further economic pressure must be exerted upon the Central Powers by a vigorous enforcement of the policy of controlling our exports to adjacent neutrals.

"The economic consequences of a collapse of sterling would be identical with the effect of a complete suspension of international specie payment by Great Britain. It would, for a time, reduce the trade of the world to a barter basis and disorganize commerce to such a degree as to seriously hamper the successful prosecution of the war.

"In detail, the following developments might be expected:

"1. Trade throughout the world, which is largely conducted at prices based upon the rate at which local currencies may be converted into sterling, would halt until other means of settlement were provided in place of the sterling bill.

"2. Interruption to commerce would result in goods piling up at seaports, causing congestion of transportation both by rail and water.

"3. The citizens of neutral countries would direct goods to the market where cash settlement could be effected, namely, this country, thereby hampering our Allies in purchasing supplies which they are now receiving from various parts of the world and forcing them to make all of their purchases in this country.

"4. It is quite possible that sufficient distrust of the stability of world finance would develop to lead timid people to hoard gold, with the inevitable consequence of a quoted gold premium.

"5. All exports by this country to Allied countries would increase in cost to the consumer abroad in proportion to the discount on sterling (or premium on dollars) and such restricted trade as continued could probably only be conducted by the use of our Government's credit.

"In general, it would mean a period of disorder in the world's commerce and finance which could only be gradually restored by the substitution of other means of settlement, doubtless American bills, which development would be slow because of the lack of adequate American banking machinery in foreign countries. The ramifications of the disorder resulting from any such calamity need not be enlarged upon as they are only too apparent.

"In view of the existing situation, two possible courses seem to be feasible. The simplest and most effective would be for the Government of the United States to make sufficient advances to the British Government to enable it to continue its policy of purchasing exchange through the existing machinery, so that no disturbance whatever would arise, nor would any publicity develop which might be interpreted by enemy governments as evidence of growing weakness."

I am familiar with the views which were expressed to you by Messrs. Morgan, Vanderlip, Kahn, and Alexander of strongly favoring the maintenance of the value of sterling exchange in this country, and my own opinion is in complete accord with this idea. I am strongly in favor, however, of a more normal support of sterling by a reduction in its volume and a corresponding increase in dollar bills, and am glad to know that this view is supported by the high banking authorities with whom you conferred in New York on the 6th instant.

The United States is now the world's chief source of supply for money and credit. If the present system is to be continued of having sterling exchange the standard currency in the world's transactions, it would seem that we should establish branches of the Federal Reserve banks at all of the principal money centers of the world which are accessible. There are of course, certain grave objections which may be urged against this policy. The Federal Reserve banks are the reserve depositaries of nearly 8,000 member banks and the distribution of the assets of the Federal Reserve banks throughout the world at this time might cause serious distrust and probably would, in addition, impair the ability of the Federal Reserve banks to relieve any sudden domestic crisis which might arise. In these circumstances, I am decidedly of the opinion that it would be far better to force the American dollar into the position of being a standard currency for the world, and to require those nations which deal with us not through preference but of necessity, to conduct their transactions in terms of American money and to make their ultimate payments for goods shipped from American in American money markets. The United States Government is going to be depended upon at any rate, to finance the anti-German belligerents during the continuance of the war, and it would seem that this Government is certainly in position, in extending credits to these belligerents, to force them to accept our own terms. You have announced the wise and liberal policy of seeking no profit on the moneys furnished, but it seems it is clearly in our own interest, as well as to that of the other countries, that the United States be recognized, for the time being at least, as the world's chief money market.

Let us assume that Congress will authorize you to extend credits of $2,000,000,000 additional, to Great Britain between now and the first of next June. This is an amount more than sufficient to take care of the present volume of sterling bills at the arbitrary rate which has been fixed. Let us assume further that you will cause a warrant on the Treasury to be drawn on the first and fifteenth of each month and that the amount of these warrants is placed in the New York depository banks of the British Government to its credit. The British Government could then instruct its nationals that it had made this arrangement for credit say to the Bank of Liverpool, London City and Midland Bank, and other accepting banks and acceptance houses, that under its arrangement with the United States Government bills of American purchases such as cotton, wheat, or steel, should be drawn at ninety days, payable in American dollars. These banks already have their New York correspondents and could send the acceptances to New York for collection. They would be met at maturity out of the funds in New York banks to the credit of the British Government account, and in addition American banks in New York and other large cities could engage in this acceptance business, forwarding their drafts for payment at maturity to New York in the same way. As a result, a very large proportion of these bank credits which will be liquidated by the popular subscriptions to Liberty bonds, will be carried by American banks. They will be paid promptly at maturity by the advances made by the United States to the British Government out of the proceeds of Liberty bond sales, and it is conceivable that there might always be an unliquidated amount of unmatured bills (representing the volume of ninety days) in the hands of American banks aggregating, of say, $1,000,000,000, thus affording a natural and easy means of increasing the credit. This arrangement might not at first appeal to British pride and would probably be opposed by Sir Edward Holden of the London City and Midland Bank, but if certain political conditions which I need not discuss here are pointed out, I think their opposition would fall to the ground. Because of the diplomatic aspects of the case, I am somewhat reluctant to make a suggestion regarding our transactions with Holland and the Scandinavian countries, but as this is merely a personal memorandum for your own consideration, I will take the liberty of doing so. From what I have read I am of the opinion that Holland, Norway, and Sweden have been heavy sellers of goods to Germany and the large increase in our exports to these countries during the past two years and a half would indicate that they have been buying much more than they needed for home consumption. The embargo on shipments to these countries appears already to have had a very strong sentimental effect on Germany. I assume that the embargo will not be absolute but that a certain volume of goods will be permitted to go forward. However, a decrease in our exports to Holland, Norway, and Sweden, unless accompanied by a corresponding reduction in our imports from those countries, will tend to further aggravate our present unfavorable exchange situation with them and will still further reduce the value of the American dollar in those countries. I have seen statements made in the press that Germany has forced these unfortunate countries to ship goods to her in exchange for coal. It would, I think, be to the advantage of this country if England were able to exert equally as strong in influence upon them as Germany. She could do this if an agreement could be made to have England act as an intermediary for America in the shipment of foodstuffs to Holland and the Scandinavian countries. England is practically on the ground and must have a clearer insight into the actual needs for domestic consumption of these countries than America has. She could prevent any retaliation on the part of these countries in the way of declining to ship goods needed by America, by making such shipments a condition to the forwarding of American foodstuffs to them. Some agreement should be made as to British profits in these transactions, which ought to be less than the discount now paid on the American dollar in the countries named, and I ask that you consider whether trading with these countries through England would not strengthen us from a military standpoint, besides relieving us of a very intricate exchange problem.

In this connection, I would suggest that you discuss with Lord Northcliffe the question of gold shipments to India. Not only have we been obliged to ship gold to India in payment of American purchases, but we have sent even large amounts for Japanese account. Owing to importations, principally of silk, we have been indebted for several months past to Japan on current account, which country in turn is indebted to India for purchases of cotton and jute. Japan has been settling her balance with India by directing the United States to ship gold to Calcutta for her account. I was informed sometime ago that the British Government had arranged with banks in India to retain incoming gold in their vaults and to issue notes against this gold for purposes of circulation. Would it not be possible, in view of England's steady debit to this country, to make some arrangement with Great Britain, Japan, and India, to have the gold which we have been shipping to India remain in this country for British account, letting the settlement be made direct between London and Calcutta? My inquiries into this subject of exchange have by no means been completed, but as this memorandum is already too long, I shall bring it to a close with the hope of being able to submit additional views and data later.

Respectfully yours,

[S.] HARDING.

Hon. W. G. McADOO,
Secretary of the Treasury.

EXHIBIT NO. 2967

BRITISH EMBASSY,
Washington, August 16, 1917.

Personal (Handwritten)

The Honourable OSCAR T. CROSBY,
Etc., etc., etc.

MY DEAR CROSBY: You will remember that in the message to Mr. McAdoo from the Chancellor of the Exchequer on the subject of exchange a statement was given, in paragraph three, of the purposes now served by supporting sterling exchange in New York. The balance unprovided for after allowing for America's ordinary trade obligations to the United Kingdom and to the Allies was indicated as follows:

(a) Exports on private account from America to this country for commodities not yet under Government control of which cotton is the chief.

(b) Similar purchases by the Allies who have not yet controlled so many commodities as we have.

(c) Purchases from America by British Dominions and by India only small part of whose trade is under Government control.

(d) Cost of neutral exchange arbitraged over New York, that is to say those Allied purchases in neutral markets which are being financed at present out of the resources of the United Kingdom.

With regard to (a), it was mentioned that cotton is the chief item. I find from the United States Trade Returns that the exports of this staple to the United Kingdom in the eleven months ended May last were valued at $253,000,000, or an average of $23,000,000 a month. This is, of course, the f. o. b. value.

It may also be assumed that cotton shipped to our Allies and to British Dominions, as well as that shipped to neutral countries, has been paid for mainly through the medium of sterling exchange, as this has been and is the usual practice in regard to this article. The shipments to other Allies in the eleven months amounted to $138,000,000; to Canada it amounted to $13,000,000 and to neutral Europe to $18,000,000, making a total of $169,000,000, or an average of nearly $15,500,000 a month. On the basis of the foregoing figures it would not be an exaggeration to hold that cotton represents about $40,000,000 out of the $100,000,000 a month referred to in the statement.

With regard to (d) cost of neutral exchange arbitraged over New York, I should like to point out that the amount involved under this head represents purchases of American commodities by neutral countries paid for out of dollar exchange against sterling credits created in London in respect of purchases made by the United Kingdom from the neutral countries concerned. For example a sterling credit in respect of iron ore purchased by the United Kingdom from Sweden is utilized by the latter country to pay in dollars for purchases of grain or other commodities in the United States. The point I wish to make here is that the amount involved under (d) does in fact represent exchange provided to cover payments for American goods. In the case of the purchases under (a), (b), and (c), these represent direct transactions between the United Kingdom, British Dominions, and the Allies, whereas under (d) the transactions are indirect in the sense that the goods, although purchased by neutrals, are paid for out of British exchange. But in all cases these operations, whether direct or indirect, represent payments for American commodities.

Yours sincerely,

[s.] RICHARD CRAWFORD.

EXHIBIT NO. 2968

FEDERAL RESERVE BOARD,
OFFICE OF THE GOVERNOR,
Washington, August 17, 1917.

DEAR MR. SECRETARY: Continuing the discussion of the foreign exchange situation as begun in my letter of the 14th instant, I ask your attention to some extracts from Hartley Withers' book, War and Lombard Street, which was written in December 1914 from which you will see that Mr. Withers who seems to be impressed with the idea that New York is America, and vice-versa, comments upon New York's inability to rise to the occasion and take advantage of the opportunity which was afforded the United States at the outbreak of the war. At the time Mr. Withers' book was written, the United States was still indebted to foreign countries on current account. There has been an entire change in the situation since December 1914 however, and the American position is therefore stronger now than it was when Mr. Withers wrote his book. I submit therefore, that unless America takes advantage of the opportunity now afforded, she is liable to incur the contempt of other nations. In my study of the international exchange conditions I am more and more impressed with the thought that exchange is now being regulated by governmental fiat more than it is by natural trade and economic conditions, and as other nations have taken an arbitrary stand in the matter, I ask you to consider whether the logic of the situation does not require that the United States should decide for itself its own attitude.

I had a talk yesterday afternoon with Mr. de Neuflize, the New York representative of the Bank of France. He admits that it would be entirely reasonable, if America undertakes to finance foreign purchases in the United States, for our Government to insist that bills against such purchases be drawn in dollars; but makes the point that in order to effect a change from the present custom some time will be necessary. It seems that in the matter of cotton purchases, the custom in France does not coincide with the English practice. French cotton merchants, who are located mainly in Havre, use their own credit and instruct American shippers to draw on them in francs at sight, shipping documents and insurance being the protection of the shipper in these transactions. English cotton merchants and spinners on the other hand, arrange bank credits, and drawings are made at sixty or ninety days, documents being delivered upon acceptance. While it may not be practicable as far as France is concerned, to have all bills drawn in dollars at once, I can see no reason why a start cannot be made and why some bills cannot be drawn immediately in dollars. The French Government has never undertaken to peg the price for bills draw in francs, so that after all the situation regarding these bills is not urgent as is the case with bills drawn in sterling.

I am leaving tonight for Boston and will have a conference tomorrow with Messrs. Aiken and Curtiss, with whom I will discuss more particularly the matter of bills originating in South America.

Respectfully yours,

[s.] HARDING.

Hon. W. G. McADOO,
Secretary of the Treasury.;

QUOTATIONS FROM A BOOK BY HARTLEY WITHERS ENTITLED "WAR AND LOMBARD STREET", WRITTEN IN DECEMBER 1914

In discussing the important effects of the outbreak of the war, August 1914, Mr. Withers says (pp. 102–108):

"It was the chance of a century for New York. American ambition has long ago informed the world that the United States, having been the world's granary, is now the world's most progressive manufacturer, and means soon to be the world's banker. This may happen some day, and might have happened already if American policy in currency, financial, and fiscal matters had been more enlightened, and if her people had been more thrifty. But they have tied their credit system in the bonds of narrow banking laws and their trade in those of a cramping tariff.

* * * * * * *

"It was the chance of a century, but New York could not take it. When London called in its credits from other countries, any centre that could have said to these countries, 'We will give you the credit that London has cut off, and lend you the money to pay London', would have stepped straight on to London's financial throne and set London a very difficult task to regain it after the war was over. * * * If the United States had had the courage to use this mountain of metal and let other countries draw on it * * * New York would have had a big slice of London's business. The United States were at peace, and with all the chief countries of this antiquated hemisphere engaged in the mediaeval business of killing one another's citizens and destroying one another's property, the United States might have been expected to leap into the position of economic leadership. But America feared to use its gold, and held on to it as tightly as it could, fearful of internal trouble and a run on its banks if too much of the metal went abroad. * * *

"At the same time there is no doubt that New York did some of the business for herself that London had formerly done for her. If she was not in a position to finance other countries, she did make a beginning in financing her own imports. Exporters of goods from South America to the United States who had formerly taken payment by drawing bills on London, and were no longer able to do so, drew on financial institutions in New York instead. Some of these bills were used to make three-cornered payments from South America to London, and a very costly means of payment they were to the debtor, owing to the high rate of discount in New York, and the depreciation of the American dollar as compared with the pound sterling. * * *

"It seems likely that this business of financing American trade New York will keep in her own hands to a greater extent that she did before. Probably she would have taken more of it to herself even if there had been no war. Her new banking legislation has included in its aim the establishment of branches of American banks abroad, and the development of acceptance business in New York. It could not be expected that New York would always be content to see the greater part of America's external trade financed with English credit. Her next step will be to endeavor to finance other people's trade, and she is already beginning to set about taking it, being assisted by Lombard Street's shyness in the matter of new acceptance business."

EXHIBIT No. 2969

FEDERAL RESERVE BOARD,
Washington, August 29, 1917.

DEAR MR. CROSBY: I would recommend that at some convenient place, possibly where I have marked it on page three, you express a thought somewhat as follows:

"It appears to the Secretary of the Treasury that the exchange situation in neutral countries could best be handled by a clear understanding amongst all countries at war with Germany that they will not buy in neutral countries goods to a larger extent than they can pay for by the export of their own goods (or their own shipments of gold?), or by loans to be granted by such neutral countries?"

I would suggest further that at the bottom of page three you revise somewhat the phrase "that some determination should be had, if possible, as to the permanence of these sterling balances." There are $150 millions of American bank balances and it is hard to see how we could suggest to the British Government that they tie up these balances permanently. It will be much rather a question for Great Britain to provide an adequate reserve to pay off these loans when called, or to offer a sufficiently high rate of interest to keep this money in England.

In this connection, may I quote from a letter of a Dutch friend of mine as follows:

"From an advertisement in a Dutch paper, I see that England does not renew 5% one-year treasury notes maturing in Holland in the course of July. This gives the impression that England uses your money, which cost her 3½%, to pay off her debts in neutral countries, to which she pays 5%. At the same time, she upsets your foreign exchange markets."

I think we have to keep clearly in our minds, in dealing with this question, two facts: (1) that money flows where it can draw the highest interest, provided credit conditions command reasonable confidence; and (2) that our entire problem can only be carried through safely, if at all, if we look upon the finance transactions at present under consideration merely as sales of goods on credit.

As long as goods are purchased in countries willing to sell them on long-time credits, the complicated problem that we have in hand can be carried on on a comparatively simple basis, though, of course, there are limitations to everything.

But when goods are bought in some countries that are not willing to sell on credit—bought in excess of what the purchasing country can ship in goods or gold in return—it is then that our difficulties begin, because it is then that some how or other this country is being used to pay for the goods that some one has bought in other countries, and it is then that the exchange difficulties for our European friends begin and it is then that it becomes impossible for us to protect our own exchanges in foreign countries.

By the way, as to gold embargoes, let me urge again that we do not put in this country an embargo on gold shipments, unless England and France are doing the same. We are doing it for their protection and if any onus attaches to that step, it ought to be borne by them with us.

Very truly yours,

[s.] PAUL M. WARBURG.

Hon. O. T. CROSBY,
Assistant Secretary the Treasury.
Inc.

EXHIBIT No. 2970

AUGUST 29, 1917.

SIR: Reference is made to your letter of August 15th in which you enclosed copy of a communication received by the State Department from the Swedish Chamber of Commerce in the United States of New York City, relative to the condition of exchange between the United States and Sweden, and requested the Federal Reserve Board to comment upon it.

The memorandum of the Swedish Chamber of Commerce of the United States calls attention "to the tremendous discount at which the dollar is now selling in Sweden, the consequences of the same being detrimental to America." "This state of affairs (the memorandum continues) seems to exist at present, not only in Sweden, but also in all other neutral countries, including Spain and Argentina. In other words, what has happened to the German mark, Russian rouble, and Italian lire during the war, is rapidly taking place with the American dollar and we feel some steps ought to be taken regarding same, as it certainly cannot be to our interest."

The memorandum overlooks one very important fact, and that is that we must consider in addition to the mark, the rouble and the lire—the pound sterling and the franc; because it is most significant that wherever the American dollar has gone to a discount in foreign countries, sterling and franc exchange have also declined. As a matter of fact the dollar has not led, but has followed this movement, and in most cases the decline of the dollar has not gone quite as far as that of the other exchanges.

The Federal Reserve Board published on August 1, 1917, in the Federal Reserve Bulletin, page 852, some facts regarding this situation, and additional information will be printed in the bulletin to be issued on September 1st. It will be seen from these statements that, while in Stockholm dollar exchange went down to a discount of 12.41%, sterling dropped to a discount of 14.37%; in Christiana the depreciation of the dollar was 9.14%, that of sterling 10.79%; in Copenhagen the depreciation of the dollar was 8.04%, that of sterling 9.96%.

The memorandum of the Swedish Chamber of Commerce states quite correctly:

"Undoubtedly we (the United States) are receiving from Sweden more goods than we are shipping to Sweden. When I mention "we", I include our Allies in the same because since we entered the war we are lending money to the Allies and undoubtedly they are transferring debts that they have to Sweden over to us."

Speaking generally of the problem of our exchanges with neutral countries, the facts are correctly stated in the memorandum of the Swedish Chamber of Commerce of the United States. Our European associates are heavy buyers in neutral countries. They cannot ship a sufficient amount of goods to those countries, nor can they ship enough gold, in some cases because they cannot afford to spare the gold, in others because some neutral countries refuse to accept gold. That is why, broadly speaking, belligerent exchanges have gone to a heavy discount in neutral countries. Had the United States been able to deal independently with those countries and not as a member of a group of belligerents, it is reasonable to assume that dollar exchange would not have gone to a discount in neutral countries. When, however, we make loans amounting to billions of dollars to the nations associated with us in the war, and more particularly to Great Britain, thereby enabling that country to maintain approximately a parity of sterling exchange in the United States, we bring about conditions which bind the dollar to the pound sterling, thus forcing dollar exchange in neutral countries to approximately the same level as sterling exchange.

From the foregoing we cannot escape the very clear conclusion, that, so long as sterling exchange is maintained in New York at existing rates, we cannot hope to restore the parity of American exchange in neutral countries, unless we are willing and able to settle not only our own balances by remittances of gold, but also those of our associates in the war. By such a course we would weaken our gold position to such an extent that we would jeopardize our ability to finance our own requirements as well as loans to the nations with which we are associated in the war. The statement of the Swedish Chamber of Commerce of the United States, that the consequences are "detrimental to America", is correct if we consider America alone. It is true that in assisting in the maintenance of sterling exchange in the present circumstances, we are decreasing the purchasing power of the dollar in neutral countries and we are thereby, to some extent, increasing the cost of living in the United States. We should not, however, consider this question from a local or selfish point of view. Should we permit sterling exchange in the United States to go to a discount of about ten percent, dollar exchange would perhaps go to par in neutral countries; but we should remember that Great Britain contends that any considerable discount on sterling would be a serious blow to her credit, and that it would be a source of comfort and encouragement to our common enemy. We in the United States should, therefore, consider this question from the standpoint of a partnership. We should be willing to undertake whatever disadvantage there may be in having dollar exchange at a discount in neutral countries if such a condition is best for the partnership or common interest, just as Great Britain would doubtless be willing to abandon her support of sterling exchange in the United States if it should be determined that thereby the general interest would be most benefited. It is certain that the United States is now the financial backbone of the powers at war with Germany, and that nothing should be done which will tend to weaken our financial staying powers.

The remedies suggested by the Swedish Chamber of Commerce of the United States must be regarded as palliatives only. The chamber recommends:

"First: Increase shipment from this country to Sweden of such goods of which the exportation is not detrimental to this country."

In view of the limited transportation facilities and of the restrictions that have been placed upon exports to neutral countries, we cannot export goods in sufficient quantity to offset the combined debit balance of our associates in the war.

"Second: Gold shipments to offset the debit balances of ourselves and our Allies."

Should we undertake to liquidate these debit balances by shipments of gold, we would impair our financial strength, the maintenance of which is so essential for the winning of the war.

"Third: Negotiating a loan in Sweden on the part of America.

"Fourth: Buying up in this country such Swedish securities as may be held by American citizens."

These are steps which the Federal Reserve Board has already suggested on several occasions, but the volume of Swedish securities in this country is not large, although there are some Spanish securities held as collateral against Anglo-French loans in this country. There is quite an appreciable amount of Japanese securities held in the United States, the sale of which might be undertaken following negotiations with the governments concerned.

It would, of course, be of material assistance if some of the neutral countries and Japan could be persuaded to make loans to our European associates in the war, or, if necessary, to the United States acting on their behalf. The difficulty of financial associations of this kind is that they probably cannot be carried through without the active cooperation of the neutral governments involved, and that these neutral governments would be unwilling to proceed far with such negotiations for fear of exposing themselves to the imputation and consequences of committing an unneutral act against the Central Powers.

After careful and extended consideration of this subject, the Board has reached the conclusion that as long as the parity of exchange between Great Britain and the United States is maintained, we cannot expect to reduce the discount upon the dollar in neutral countries without regulating, at the same time, sterling exchange in those countries. Whether it is to the advantage of the partnership-the common interest, to maintain sterling exchange in the United States around par, is not a question for the Federal Reserve Board to determine; and there can be no doubt that this problem of exchange must be approached from the standpoint of the best interest of the partnership as a whole. In the present circumstances, this question of stabilized sterling exchange can be dealt with only by joint action of the partners, that is, of the governments associated together in the war; either by loans in neutral countries or by a firm and consistent policy of reducing the purchases of our fellow belligerents, in neutral countries, to some amount not greatly in excess of the value of goods which these belligerents can sell to the neutrals. The Board is of the opinion that if the United States, in order to protect the European members of the partnership, and especially Great Britain, should be obliged to place an embargo upon the shipment of gold to neutral countries, Great Britain and France ought to be asked to join the United States in such a step; otherwise, the United States must bear the onus of having refused to pay her debts in gold, while Great Britain, although preventing gold shipments by restrictive measure of various kinds, has not declared an embargo and has been able to preserve the legal fiction of compliance with demands for gold.

The foregoing is respectfully submitted by direction and on behalf of the Federal Reserve Board.

I have the honor to be, sir,
Respectfully yours,

WARBURG, *Governor*.

The Honorable, The SECRETARY OF STATE.

EXHIBIT No. 2971

The SECRETARY OF THE TREASURY,
Washington, October 24, 1917.

DEAR MR. PRESIDENT: Under date of September 17th, you approved a loan to the British Government during this month of $185,000,000. This loan was notified to Lord Reading and has all been drawn. He had applied with much urgency for a loan of $235,000,000. We have been in constant communication about the matter during the month, and he has just now advised me that he does not see that it will be possible for his Government to meet its engagements without having an additional loan of $50,000,000 as previously calculated by him. This figures covers a portion of an advance of $200,000,000 to be taken from time to time as required during this winter and next spring for the purchase of available wheat surplus in Canada. This has been the subject of long negotiation between us, and Lord Reading has given the most positive assurances that it will be quite impossible to supply Great Britain, France, and Italy with the necessary food supplies unless this loan should be assured him. It has been necessary in connection with this to obtain from Canadian bankers an engagement to supply $100,000,000 out of the total that is estimated to cover the surplus wheat in question.

Looking beyond this month, Lord Reading feels that it will be quite impossible to diminish his Government's needs to an amount less than about $210,000,000 for November, and probably $225,000,000 or $235,000,000 for December. As I explained in conversation with you, considerable proportions of these sums go to the purchase of sterling exchange, and Lord Reading now repeats, with much urgency, the statements made in Bonar Law's despatches of several months ago to the effect that it is wholly impossible for the British Government to meet these bills in any other way at present than by borrowings made here. Just what proportion of these bills represent settlement of their balances in neutral countries, and what proportion represents settlement of certain purchases of American goods that are expressed still in sterling bills, we cannot now definitely determine. We must assume, however, that something like $60,000,000 per month will represent these outside purchases; the remainder of about $100,000,000 a month being spent in exchange operations covering purchases of cotton and other American supplies, in the same way in which cereal purchases have been made by the British Government in the past. His Government will now, I believe, after a better understanding of the situation, make renewed efforts to diminish the demands upon us for foreign settlement, but these efforts cannot immediately bear fruit. The situation is full of difficulty, and while we are required, in order to meet these great exigencies, to depart to a considerable extent from the theory of supplying moneys solely for purchases in this country, it does not seem that we should refuse to continue aiding the British Government in this way as long as we can do so with due regard to the commitments of our own Government in relation to the available funds in the Treasury.

I therefore have the honor to request that you will be good enough to approve loans to the British Government for $50,000,000 additional for this month, bringing the total to $235,000,000, and $200,000,000 for next month. The advances made already this month and future advances yet to be made will cover the total of $200,000,000 for Canadian wheat, of which Secretary McAdoo had promised $50,000,000 before his departure.

Cordially yours,

[s.] OSCAR T. CROSBY, *Acting Secretary.*

THE PRESIDENT,
The White House.

Approved, 25 October, 1917.

[s.] WOODROW WILSON.

EXHIBIT No. 2972

841.51/89

THE SECRETARY OF THE TREASURY,
Washington, October 25, 1917.

MY DEAR MR. SECRETARY: I believe it is already quite familiar to you that a considerable portion of the loans made by this Government to the British Government and also to the French Government, acting more or less indirectly through the British Government, have been used for the purpose of buying all French and English exchange offered on the New York market. In so far as the amount thus purchased represents final balances of trade between France and England on the one hand and neutral countries on the other, the purchase of these bills is in fact a payment of the debts of English and French nationals or their governments for the balances thus incurred. Until a recent date, it was possible for the sellers of these goods throughout the world to receive ultimate payment, if they so desired, by the shipment of gold from the United States. This movement, as has been indicated to you in the past, had attained very considerable proportions when the tentative embargo upon gold shipments was established by our Government. Since that date, the sales of these bills have resulted rather in the establishing of credits in New York banks in favor of the selling countries or the banks in various neutral countries representing these original sellers, these credits remaining as a part of the deposits of our great banks.

From this point of view perhaps there should be no complaint on our part, save that two questions of great import are presented in connection with the matter, namely, first, that the establishment of these credits through the means above indicated means at all times a heavy and almost unbearable pressure upon the Treasury of the United States to furnish to the French and British Governments the moneys to make the purchases of bills of exchange in New York; and, second, that after a certain period it may appear that the sellers of the goods, say from the Argentine Republic, or from Brazil, or Spain, will be unwilling or unable to receive their payment solely in New York bank credits. In this latter case, it is apparent that our associates in the war would be deprived, unless other means are taken, of obtaining goods which in the main we know are considered by them as essential for the prosecution of the war. It is true that some further economies in respect to their purchases in neutral markets may be established; but, without going too narrowly into the question, we are assuming now that they have already exercised an extreme prudence in limiting their importations to articles considered necessary.

In order to alleviate the situation without continuing the supply of funds for the purchase of bills of exchange in New York, with the attendant danger indicated above, the following means of relieving the situation have been discussed, namely:

1. That there should be an absolute forbidding of the dealing in bills traceable to neutral countries for British and French commerce in our market, thus at once diminishing the demand for moneys by those Governments intended for the purchase of these bills. This, of course, is an extreme and from many points of view an undesirable remedy, and is mentioned merely as one of the possible remedies. It would be attended with such great hardships upon our associates in the war that we scarcely like to contemplate it.

2. That there should be a renewed study by our associates in the war of the possibility of purchasing in this country the goods which they are now obtaining in neutral countries, which commerce creates the situation here described. It may be assumed that this particular remedy is now being more or less applied by the British and French Governments, but it seems difficult if not impossible that the whole situation should be thus met, since in the case of certain minerals from Spain, coffee from Brazil, and needed grain supplies from the Argentine, our markets cannot offer substitutes.

3. It has been considered that possibly the neutrals selling the goods in question might be content with increasing their London bank credits. This process, however, has been going on for so long a time in London and Paris, since the beginning of the war, that it is believed by the English and French advisers that it can scarcely be carried further.

4. Finally, it has seemed possible that by arrangement with these neutral countries their whole fiscal system may be modified to meet the world-wide emergency in this way, namely, that as against securities or other satisfactory guarantees owned by the English or French Governments or their nationals, the neutral countries in question should issue currency in their own countries permitting payment to their producers for the articles in question. This is by far the most obvious and sensible arrangement which could be made. Obviously, it is not easy to accomplish at once. Doubtless in some cases legislation of special character would be required in order that paper money should be issued against securities in ways not now familiar in the countries in question. It does not follow that an actual legislative change of monetary systems will be required in every country in question, but it is contemplated that in some countries such changes may be required, and hence, since we cannot assume that these changes could be immediately brought about, it is desirable that the question should receive large and general consideration at as early a date as possible.

The importance of the matter is such that I venture to suggest that you should communicate to the neutral governments which I shall name below a statement that it is believed to be of common interest to them and to this Government that their present representatives in Washington should be fully empowered to negotiate such financial arrangements as have been above indicated, or that other representatives thus empowered should immediately be sent to Washington.

For your information, I beg to state that I have talked this matter over with the representatives of Great Britain and France, who approve of the proposed procedure. They realize that what we are attempting to accomplish is specially for their benefit.

The countries in question are, notably, Brazil, the Argentine Republic, Chile, Spain, Norway, Sweden, Holland, Denmark, and Switzerland. You will of course determine whether in this list any countries appear with whose governments you would not desire to enter into negotiations looking to the amelioration of and continuance of our commercial relations.

It seems difficult to arrange with any prudence and wisdom the vexations questions connected with gold exports, dealings in bills of exchange, and even the general determination of exports and imports between our own country and the countries named, unless we have in view some general solution throughout the world of the extraordinarily difficult financial problems now being presented.

In the meantime, I am

Cordially yours,

[s] CROSBY, *Acting Secretary.*

Honorable ROBERT LANSING,
Secretary of State.

EXHIBIT NO. 2973

[Copy of cable received from Morgan, Grenfell & Co.]

J. P. MORGAN & CO.,
CABLE DEPARTMENT,
Nov. 19, 1917.

44839. Denkstein. For your confidential information, Crosby is, as before, apprehensive lest the whole burden of Allied financing may prove too heavy for his resources and feels that any break in America would be so serious that it must at all hazards be prevented. In this I concur. Crosby fears lest the present exchange situation may prove the last straw, but if some method can be devised to prevent sterling bills for Allied purchases in other markets from coming on the American market the situation will be greatly relieved. It is not illogical to feel that the Allies should finance their own purchases in neutral countries. To this end he and I have been discussing the idea of restricting purchases of exchange in New York City, et cetera, to bills that actually represent bona fide American transactions. This would be difficult, but if our Government insisted that every transaction should be traced through to its source, would it not be possible? Methods fully as difficult have been worked through here in other matters. Under such a plan British buying nitrates in Chili or wheat in Argentine and ordinarily paying for them by allowing sellers to draw bills on London, which, under present conditions, find their way promptly to our market, would hereafter have to establish credits in their neutral markets, one large source being selling back to these markets the bonds of their own Governments. Of course, these neutral markets will not at the start relish such a transaction, but in the two instances that I have just quoted, which is now actually under discussion here, the Allies constitute the only possible market for the countries in question and also control all the bottoms, so it would seem that eventually such countries must come around to some such arrangement if the Allies permit no alternative. Confidentially, the authorities here are also considering reducing interest rate paid on London deposits, also upon exchequer bills, upon latter for the purpose of diverting funds into long-term bonds, which are going rather slowly. If such deposit rate were reduced, is your judgment that much neutral money would be attracted to New York? I have suggested for Crosby's consideration the idea of releasing at some time in the future enough gold to bring about in certain other countries the same situation with respect to gold that obtain, for instance, in Spain and Norway. This may seem contradictory to idea number one and is for future consideration, the belief being that when the time is ripe a comparative small supply of gold will serve to drown some more of these neutral countries and make them desire to continue the credits forced upon them in the first instance.

Upon all the foregoing I have of course consulted fully with our friends here. Your views will be greatly appreciated. In possible absence of J. P. Morgan, I suggest you consult Breton, Guaranty Trust Company of New York. Crosby does not hesitate to express satisfaction at my daily calls upon him. I am told, unofficially, that from certain sources, hitherto unknown to us, we shall receive from here $50,000,000 for the demand loan prior to February 1st. One-half of same ought to be available before January 1st.—T. W. LAMONT.

MORGANCO.

EXHIBIT No. 2974

[Cable dispatched to Morgan, Grenfell & Co., London]

J. P. MORGAN & COMPANY,
CABLE DEPT.,
New York, Nov. 21, 1917.

55812. For T. W. Lamont. 44839. Matter has been under discussion and I understand still is so. My idea has been that the cessation of gold exports from this country to the neutral nations would automatically tend to diminish Allied purchases in those countries since those countries would prefer not to accumulate large balances in New York City. The sudden cessation, by Government direction, of arbitrage exchange transactions would, in my opinion, unsettle things considerably, but I understand that they are now working in Washington on a plan to assist this matter. This plan involves first obtaining of accurate information before any action is taken and it seems to me that it would be very desirable to arrange to get the information, which can be obtained by having all the banks report confidentially to the Treasury the source of their sterling remittances to London, against which remittances they eventually sell cable transfers to us. The establishment of Allied credits in the neutral countries would be very advantageous and it seems to me that your suggestion as to the inducement to those countries to make such arrangements are sound.

In regard to the interest on London deposits, in view of the prohibition of gold exports from here do not think it likely that banks of neutral countries would transfer their balances from New York City to London. It would be disadvantageous to situation if they did so, however, and hardly think saving of interest would be worth risk. Do not believe your idea of swamping countries with gold would work. The neutral countries do not want gold, evidenced by action of Spain which declined to receive gold except at considerable discount. They want something else, in most cases, I think, coal, and of course shipments of coal to them would be very advantageous were the shipping questions solved.

News about demand loan at end of your cable most satisfactory.—J. P. MORGAN.

MORGANCO.

EXHIBIT No. 2975

J. P. MORGAN & COMPANY,
CABLE DEPT.,
New York, Nov. 21, 1917.

55811. For T. W. Lamont. I judge from your 44839 Crosby considerably more frightened than anyone else in Treasury Department. Found them yesterday all full of courage and with great confidence that they could meet any calls that were necessary and they have no fear of coming so near the bottom as to make the last straw dangerous. From your cable I judge that Crosby is in the same condition as when I saw him in Washington and what he needs is a footwarmer. Of course, any steps taken to discourage exchange arbitrage must be taken with the consent and approval of the Allies. We certainly do not want to cramp them in purchases of necessities for the war, even if it costs us money to do so. After all, if we could shorten the war by ten days at an expense of even £100,000,000 or more, as a purely monetary transaction it would show a profit, and since we have Great Britain's obligation to repay that 100,000,000 later on, I do not think the United States should be too drastic in its requirements.

Delighted with your cables. Hope they will continue for full news is very valuable to us here and our views may be of assistance to you.—J. P. MORGAN.

MORGANCO.

Exhibit No. 2976

[Cable received from Morgan, Grenfell & Co., London]

J. P. Morgan & Company,
Cable Dept.,
New York, Nov. 23, 1917.
[Dated Nov. 22]

44975. Denkstein for J. P. Morgan. 55811. 55812. Thank you very much for both these illuminating and helpful cables. They are just what I wanted.

Matter of controlling arbitrage exchange transactions is still under discussion here, and nothing would of course be done without approval of all parties involved. Governor of Bank of England believes matter could be handled without unduly prejudicing British interests, and this morning Lord Reading expressed himself to me in somewhat like terms. But any actual step will be postponed until Crosby's return from Paris. Meanwhile a thorough-going investigation of sources such as you suggest should, in my judgement, be undertaken at once, and when completed will be most important in clarifying the minds of everybody here and enabling all parties to arrive at a satisfactory basis of operations in this matter.

Status of our demand loan. Had a very satisfactory interview this morning with Lord Reading who says this: "We have promised you by word of mouth, if not in writing, that when we receive those monies from shipping they shall be turned over to you to be applied to the demand loan. We regard that as a commitment which we will fulfill. We shall explain to your Treasury that those are monies which have already been hypothecated, so to speak, to the loan. If you yourselves deem it wise to try to meet some of Crosby's views and return to him a part of those shipping monies or hold it in reserve for other maturities of the British Treasury, that is entirely an affair between you and Crosby, and we wish to be understood as not urging you in the slightest degree to such an end."

The foregoing is the substance of his remarks to me, and he added that he well understood, as previously explained, that the indefinite continuance of the demand loan was prejudicial to the interests of the American money market, and to the financial position of the Allies generally. To me, this is most explicit and satisfactory.

For your confidential information, Crosby told me last night that he could of course, offer no objection to the British Treasury disposing of the shipping monies as it saw fit. Further, he did not want me to think that he had forgotten the suggestion which W. G. McAdoo and he made to me last July, that these shipping monies would all be available for the demand loan, but he wanted me to consider that the question of the February 1st maturities of Great Britain had since arisen, and he thought that some of the shipping monies should be allocated to cover a part of those maturities. I explained to him the unwisdom of our adopting any such suggestion, and again went into the importance of reducing at the earliest possible moment, the demand loan to its lowest limits, and the advantages which would thereby result to both American and British Treasuries. Crosby then brought up the question of du Pont maturities, and said he felt that in handling shipping monies those should also be considered. I explained to him impracticability of arranging anything with du Ponts so far ahead as March maturities, but I am confident that it would ease him up and help in adjusting whole demand loan situation if you were able to arrange something in the near future as to December maturities. See my 44774, your 55633.—T. W. Lamont.

Morganco.

Exhibit No. 2977

841.51/111 Plain

(*Telegram received from London, dated March 23, 1918. Recd. 11:59 p. m.*)

Secretary of State,
Washington.

9195. For McAdoo from Cravath. March 23, 7 p. m.

Cable number 130. Treasury have shown me today long cable to Reading which he will show to you. Crosby will not see this cable until I meet him in Paris on Tuesday.

Treasury cable presents situation so fully that very little remains to be added by way of comment. Plan presented has been subject of informal conference for some time but it was only this week that accumulation of questions raised by proposed transfers of dollar credits from France and Italy to Great Britain convinced Chancellor that the time had come to present plan to you.

There is one point which seems to require additional elucidation: the advances of British Government to France and Italy which for some months have averaged about 118,000,000 dollars a month exclusive of advances for interest have been used partly to pay British Government for commodities purchased in the British Empire of purchases elsewhere by the British Government and resold, and partly to pay for purchases of France and Italy in neutral countries. The advances of the latter category have usually taken the form of sterling bills which have helped swell the volume of sterling exchange which has come on the New York market. The advances for purchases in the British Empire have been to a substantial extent for commodities originally purchased by Great Britain in the United States or manufactured products absorbing raw materials purchased in the United States.

Under proposed plan Great Britain would be relieved of the necessity of furnishing sterling exchange to France, the purchases of France and Italy in neutral countries thereby reducing the burden of sustaining sterling exchange in the New York market, or if Great Britain for convenience furnished sterling exchange for these purchases she would receive dollar credits, in exchange Great Britain would also receive dollar credits in payment for commodities purchased by France and Italy in the British Empire. The dollar credits thus received would be used in reducing Great Britain's financial demands on the United States.

While Chancellor's cable not entirely specific in this regard it is essential part of plan that British Treasury shall agree to use all dollar credits received from France and Italy in reducing its dollar demands on the United States. I therefore agree that unless other causes should intervene, proposed plan would involve not an increase in the aggregate of our advances to the Allied Governments but simply our receiving an increased proportion of French and Italian obligations as compared with British obligation.

I have raised the question that proposed plan might remove present incentive on the part of British Government to carefully scrutinize and limit so far as practicable the purchases of France and Italy in Great Britain and in neutral countries and that it might even have the effect of making it to the interest of the British Government that Italian and French purchases in the British Empire should be as large as possible. The answer made to this criticism is that the conditions now existing and which must continue during the war automatically keep within the closest bounds the purchases of both the French and Italian Government outside their own countries. It is also proposed that the very effective machinery set up by the British Government to supervise the expenditure of advances to France and Italy be continued under our supervision. I am accordingly inclined to think that the dangers above mentioned are not serious.

Chancellor lays great emphasis on the desirability of not swelling British Government's debt by obligations issued for advances from the United States which are reloaned to France and Italy in return for their obligations.

My purpose in sending this cable is simply to aid in presenting the entire situation to you. Crosby will undoubtedly cable you on Tuesday after reading copy of Chancellor's cable.

PAGE.

EXHIBIT No. 2978

102.1/724 Blue

(*Telegram received from Paris, dated March 30, 1918. Rec'd. 31st., 7:45 a. m.*)

SECRETARY OF STATE,
Washington.

3475. March 30, 7 p. m.

"For Secretary of the Treasury Number 212. Referring Chancellor's long cable to Reading. While I believe in general that if dollars were made to France and Italy for payment of their purchases throughout world, that there would be diminution in dollars needs of Great Britain. I cannot adopt view that French and Italian purchases in Great Britain should be covered by United States. Besides powerful political reasons against this step, it is clear that diminution in dollars demands of Great Britain would correspond to increase of dollar credits to France and Italy, without effective check upon Allied purchasers in neutral and Allied countries, all of which, unless controlled, might be increased so that demand for dollars to cover sterling offerings in New York could not be guaranteed to diminish in proportion to furnishing of direct dollar credits to Italy and France. While British Government explain they will protect sterling exchange without our assistance beyond that assured by machinery of plan, fact remains that our assistance might prove essential to protect sterling exchange irresepctive of merits of proposition. The following observations are made:

First, I am surprised that it has been thought necessary in Chancellor's telegram to assume and combat at some length the proposition that it is your desire to increase British and decrease French and Italian loans by using Great Britain as intermediary for advances to cover French and Italian purchases. Presume this idea which is contrary to whole theory of action until I left Washington based upon criticisms in your number 104 (102.1/662A) of wheat executive's programme which has been interpreted as indicating desire to prevent Italy and France from issuing so large a quota of the obligations for cereal purchases in the United States as is proposed by that plan.

Second. Paragraph. In Chancellor's despatch reading as follows: "We should remain responsible for arranging the finances of such supplies to the Allies from the world at large —— as we are responsible for at present", *intensified* simply to mean that Great Britain would, if desired, serve as a broker, for both France and Italy in securing credits in neutral and Allied countries by means of dollar credits. This intervention in any case would seem quite unnecessary and probably undesignedly.

Third. This proposition has not yet been discussed between finance Ministers of Great Britain, France, and Italy. Until this is done do not think it should be concluded between Great Britain and United States. Am trying to arrange meeting of these Ministers. Present crisis renders this somewhat difficult but unless military situation should grow very much worse probably can be arranged in about ten days.

Fourth. Plan transfers to our shoulders entire burden of supervising and placing checks upon purchases by France and Italy outside of their own countries. This burden is now mainly on British Government so far as purchases in the United Kingdom and neutral countries is concerned.

Fifth. Am inclined to think it desirable that I should make a short visit to Washington to discuss this and other matters as the whole situation grows more serious and complicated. Have pressed at a meeting of Council just concluded proposition for much closer governmental control of all purchases by Allied countries than now exists. Without this we shall always be working in the dark.—CROSBY.

SHARP.

C. S. B.

EXHIBIT NO. 2979

MEMORANDUM CONCERNING FOREIGN LOANS

1. Great Britain is now asking that the United States Treasury should hereafter make loans to France and Italy for their expenditures in neutral countries and their expenditures (except for interest on British debt, coal, and maritime freights) in Great Britain and the British Empire, such loans to be in substitution for the British net monthly loans to France and Italy. The average net monthly advances of Great Britain to France and Italy during the period October 1917 to March 1918 were approximately: France £17,530,000; Italy £9,835,000. It is claimed by Great Britain that if we take over these advances her own loans in the United States will be diminished in like proportion and the effect of the new situation would be that we should have more French and Italian obligations and less British obligations with no net increase in our loans to all parties concerned. A settlement with Great Britain on the cereal question is also pressing, the Wheat Export Company having adopted the method of allocating to Great Britain all British Empire wheat, except Canadian wheat.

2. The Government of France is suggesting substantially that we should apply the dollars supplied to the French Government in the United States in reimbursement of the United States Army expenditures in France to guarantee such portion of the circulating medium of the Bank of France as is required to cover the expenditures of the United States Army in France. The basis for this request is expressed in conversation and is expected to be expressed in writing as due to the disturbance of the financial conditions in France reflecting the serious

military situation. This disturbance makes it difficult for the French Treasury to borrow money from its citizens and the French Government fears that if the Bank of France continues its circulation of paper francs without any more gold cover than it now possesses and with only additional long time French Government bonds as security, public confidence in these issues will be shaken and there will be a corresponding increase in paper prices of all products and generally the bad effects connected with a depreciation of paper money in any country.

3. Italy is asking that we furnish approximately $100,000,000 estimated by the Italian Government as sufficient to take up the present outstanding debts due by Italian banks to the United States and to various foreign countries, and to make monthly advances estimated by the Italian Government at $10,000,000 to protect future dealings in lira exchange. The outstanding debts are threatening the value of the lira in international exchange; approximately half of the amount is indicated as due in London and Paris, very largely in London. Inquiries are now being made by us to discover whether these debts in London reflect purchases in Great Britain by Italian citizens in excess of the monthly credit heretofore provided by Great Britain to Italy or whether they represent pruchases in neutral countries or perhaps even in America, which have been expressed in the sterling drafts and which, in part, would therefore have been already covered by loans to Great Britain for taking up such drafts when presented in the New York market. In any case, if money should thus be loaned to Italy to take up the London balances, the Treasury would be adopting a new policy of which the consequences would be difficult to foresee. It is hoped within the next two or three days assurances will be had from London that the balances there will either be taken over by the British Government or will be extended by British banks so as to relieve the exchange markets from this burden. In the meantime, assurances have been given Italy that cotton purchases approved by this country may be covered in dollars out of loans made to the Italian Government, and that certain pressing needs recently indicated for pesetas, for Swiss francs, and for Greek drachmai will be supplied by the United States. The total of these pressing needs is approximately $10,000,000, assuming gold parities. The Italian Government also indicates its desire that the United States Treasury provide it with neutral currencies to meet its purchases in foreign countries. The sum of $55,000,000 is indicated as the amount needed for the purchases in such countries (including Switzerland, Greece, Spain, Argentina, Brazil, China, Chile, and Norway) for the months of June and July against which, however, there might be available the value of the exports of Italy to these countries payable during the period mentioned. Of the said amount of $55,000,000, $8,000,000 represents the estimated requirements of Italy for French funds.

4. Great Britain has requested that the United States should share equally with Great Britain and France in financing the whole cost of the Serbian Army which heretofore has been met by them alone and which amount Great Britain estimates will be approximately $——— per month in the aggregate or $——— if divided into thirds. This is exclusive of about $1,000,000 per month which the United States has been advancing to the Serbian Government for relief purposes.

5. The general trend indicated by the above requests is substantially this, that Great Britain and France want to cease to be lending nations as far as possible, if not entirely, and we may therefore assume that request will be made to take over the whole of the Belgian relief if we should show disposition to assent to the proposition made by Great Britain concerning France and Italy, and possibly followed by a similar proposition in regard to financing Greece.

6. Thus far it is to be noted that the support of sterling exchange in New York and corresponding support of francs through the amounts made available through the Bank of France since we began lending to Great Britain and France, have permitted both those Governments to receive from their citizens large sums of money in repayment of the sterling and franc obligations, and from their citizens in this country and, so far as Great Britain is concerned, of many neutrals, while the British Government has obtained the money from the United States against its obligations deposited with the Treasury.

This relief to these Governments in respect to raising the money internally has also been increased by the resale to their citizens of foodstuffs which have been purchased by the Governments with funds advanced by the United States. Due to the fact that no close analysis has been made since April 1917 of the character of the sterling bills passing through the New York market, it is impossible to tell how much of funds thus covered have given the British Government the kind of relief here indicated, but unquestionably the amount is very large, but for the first three months of 1918, at the maximum, only about two-thirds of the British loans to the Allied governments.

The recent agreement by which Great Britain purchases from the United States silver, which will no doubt be in part paid for by United States advances to Great Britain, will result in turning over to Great Britain approximately 200,000,000 ounces of silver against which rupees will be issued by means of which Great Britain will be free to cover her own purchases in India and therefore, in this sense there is that additional amount of domestic finance supplied, if not to Great Britain, at least to the British Empire. In the same sense, the loans made to Great Britain for purchasing wheat in Canada constitute an aid to imperial finance as distinguished from strictly British finance.

7. There has been an indisposition until a very recent date, on the part of the British Government particularly, to respond to my urgent request that revisions be made of the means of all the Allied countries in all neutral countries as well as in the United States, with a view to determining approximately the balances which may be due by these countries to neutral countries. It is my belief that these figures should at an early date be obtained together with a fair approximation as to the amount of income which Great Britain and Frnace will receive from their investments in foreign countries, and also a fair approximation as to the amount of sales which they will make to neutral countries; consequently, a reasonably close approximation may be obtained as to the net balance above referred to, which would thus give dimensions of the problem that is set before the United States.

8. In addition to having such information as referred to above, it seems necessary now that the United States should have a more intimate knowledge than it heretofore possessed of the existing financial strength of the British, French, and Italian Governments particularly. In using the words "financial strength" I understand that we must take into account the military situation as it has developed since the 21st of March and that which may develop within the next few weeks. It is my belief that this will have a profound effect upon the ability of these governments to raise money either locally or for covering their needs in neutral countries.

9. As to the needs of these countries in the United States, I believe a close approximation for the remainder of this year can be made after study on the spot of the estimates made by the various departments and of the probable sales of these countries to the United States. The data developed during the past year together with the known limitations of transportation lead me to believe that all the requirements of these countries in the United States, including even the maturities of their issues to our public that may occur in the year 1918, will fall below $500,000,000 per month.

If we assume that the balances due to the United States by the Allied Governments and by their nationals engaged in approved commerce with the United States are to be met by dollar supply here, it would remain to determine to what extent the United States Treasury is willing to cover their needs in Allied countries and in neutral countries. It seems difficult to justify the United States financing the purchases of one Allied Government within the boundaries of another Allied Government and if the United States is to refuse to do so, its refusal should be made known to Great Britain at an early date; likewise the cereal situation should be speedily settled with Great Britain. If the United States is to undertake any further part in financing Allied Governments in neutral countries the amounts involved should be dimentionized before an unqualified commitment is given. If any portion of the burden is to be taken up, we then must approach the exchange problem in an increasing way. It should be borne in mind in this connection that in certain neutral countries it is far easier for Great Britain to provide neutral currencies than for the United States to do so, though in other neutral countries the contrary may be the case. In this connection the following figures of United States trade appeared in the official bulletin of May 23, 1918:

Exports for 10 months ending April 1918	$4, 894, 000, 000
Imports same period	2, 360, 000, 000
Balance	2, 534, 000, 000

During the same period the United States advances to the Allied Governments were in round figures $4,261,000,000.

My belief is that any amount we are at all willing to undertake in this respect can be obtained through the placing of United States bonds in foreign countries or the placing of War Finance Corporation bonds in such countries, and I am now inclined to believe that this could best be done by using American or Allied banks which would purchase these bonds directly from the United States or from the Allied Governments which might take them from the bonds in question, then to be sold "over the counter" in the countries in question and in the amounts required.

If this method should be used the moneys thus acquired and allocated to the needs of the Allies and to our own nationals, in so far as that case may arise, would not appear n gross as a distinct government loan and would, therefore, for a time at least, not be used by Germany as a bas s of a demand for some quid pro quo. Up to this time every loan made by a neutral couutry, either to an enemy country or to one of our associates in the war, has thus been taken as a basis for a corresponding demand by the others. The knowledge of this fact on the part of the neutrals makes for delay in their assent to such formal government propositions.

10. In this memorandum I shall not attempt to describe the particular characteristics as to maturity, interest rate, etc., of the bonds which would thus be used if the United States goes into this transaction, but my desire is to present in as complete manner as possible the principles that are now at stake. It is of course impossible to decide just what method should be accepted to obtain funds in neutral countries until it is ascertained what the various neutral countries want—what might appeal to one neutral country might be unattractive to another—the negotiators will have to feel their way.

11. Recent conversations with the French representatives here resulted in assent on their part to the request of Mr. Klotz, French Finance Minister, for aid in respect that increase in the circulating medium in France be delayed until my return to France in order that more intimate knowledge of the situation could be had, since this situation was presented only on the day of my departure from France.

It seems to me desirable that the termination of some part of the British Government demands for United States advances for purchases in neutral countries should likewise be deferred until more intimate knowledge of the British situation can be obtained. It is my belief that after all the conferences that have been had during my visit to America, cables on the subject will be more thoroughly understood than heretofore. No committal whatever, even of opinion, on my part has been made to the British or French Treasuries in respect to the matters above indicated.

12. It is not so easy to defer action on the Italian situation on account of the political effect of the exchange rate now running against Italy. What has been done, however, already will largely alleviate the position of the Italian exchange in United States, Spain, Switzerland, and Greece.

If the British Government and the French Government will take the position which they have been urged by cables within the last few days concerning the outstanding balances against the Italian Government and restrict the purchases in those countries to temporary loans which the British and French may make to those governments, the whole position of lire may largely be rectified and a better rate for it can from time to time be agreed upon between all parties.

EXHIBIT NO. 2980

TREASURY DEPARTMENT
WASHINGTON

HOTEL DE CRILLON,
Paris, December 21st, 1917.

MY DEAR LEFFINGWELL: In great haste I am dictating a few words which may go to you by Mr. Graves, connected with the Forestry Department, who is about to leave, I believe on tomorrow.

I have been resting up a little for a day or two, not being able of course to completely cut out business, but finding myself so very much fagged from the ceaseless work since last April that I wasn't quite up to normal activity. The various members of the council, including Mr. Cravath who has been spending the week in London, arrive tonight, and we shall be very busy lot for the next two days. It is very hard to get the machinery going, but I think we are making real headway, and I hope there will be some result worth while before it is necessary to act upon loans for February and March. I do not know how the English situation, running to such large amounts of money, can be met as I have not yet heard from you concerning the condition of the Treasury or the attitude generally in respect to increases. I suppose you may have been disappointed and perhaps a little surprised that I indicated in some of my recent telegrams the likelihood of presentation of demands for more money, and that I showed a disposition to suggest that we should meet those demands if at all possible. I wish I could tell you in this hasty dictation all that goes to make this conclusion, I think, a sound one. The next six months are going to be months of terrific strain. I believe all sorts of things may be asked for suddenly, and while I do not see that we can get out from America any more material than we are now getting out, or that we could transport it even if we could produce it, yet I believe there may be great pressure upon us in respect to two matters which we have much talked about but which we have not wanted distinctly to undertake.

The first of these is the repayment of loans that may be falling due from time to time in the United States, concerning one of which, namely, the British February maturity, I have already telegraphed much to you.

The next thing is constant payments in neutral countries. I do not think I can tell you in any letter just how constant the pressure has been in order to produce some effect upon Great Britain, France, and Italy in this respect. They do understand now that they must get about this business, but it has been a very hard job to keep them up to it. Moreover, the blockade departments of their Governments and of our Government have tended to render extremely difficult the successful issue of efforts to obtain loans. There has been a perfectly sincere belief on the part of these blockade people that any slight let-up of pressure from them would be condemned by their respective publics, and would perhaps indeed much strengthen the enemy. I am profoundly convinced from all that I can learn as to the actual situation in these countries, that there has been much exaggeration of any possible help that could go from the neutrals to Germany. Moreover, I believe unless they must be put into the war with Germany we must not ask them to cease their commerce entirely. Even if I felt that some material which might otherwise not get to the Germans would be permitted to them by virtue of arrangements made with us, I should want to take that into consideration very cold-bloodedly and weigh it against the value of shipping and of money both of which are desired to be had from the neutrals. If we do not keep our sense of proportion about all this, we will have an extremely serious time of it. The handling of all these affairs is so divided that only the slowest progress is possible. I have finally gotten Lord Robert Cecil in London, who conducts the blockade measures there, to be completely convinced that he must not drive on regardless of financial considerations.

The Swedish transaction now under way in London illustrates how important this move was. While very stringent measures were being urged against Sweden, demands for example being made that the ore output should be sold entirely or in part to the Allies, no provision had been made for paying for this ore. When I spoke to the principal Swedish delegate about the matter, as I did in the presence of Lord Robert Cecil and all other persons conducting the negotiations, he answered that the question of financing the balances of Swedish trade had never been raised. In private conversation with me, he showed an instant understanding of the necessity that there should be loans made by neutral countries selling to the Allies, but of course urged that they must wait to be told what was wanted of them in this respect.

I found a similar situation when, by chance, I met the Spanish Ambassador in London. It is true efforts have been made in Spain for loans, but they have been very unintelligently conducted, and in the meantime I understand the French frontier has at times been closed to Spanish goods. Rumors, whether true or false, as to our withholding cotton exports are put into circulation, and altogether the Spanish Government is left in complete doubt as to what our policies may be. In spite of all these difficulties, the effort started in our own office some months ago to get the French to try for a small loan has succeeded. In our meeting, the Spanish Ambassador did not wait for any opening from me, but instantly stated, on knowing who I was, that his people understood fully the necessity of making loans to Great Britain and France, but they wanted to have collateral presented and definite propositions made. Fortunately, I understand Bonar Law has now gotten Lord Cunliffe to go to Spain. I do not know that he is in all respects the best qualified man for the job, but he and his associates in the Bank of England are fully in accord with the views I have expressed on the whole subject, and insist, if the Treasury will only move forward actively, they can make these loans and relieve a situation which otherwise will give us all immense trouble.

A telegram has just come to me from Cravath indicating the probable success of efforts to obtain a loan in the Argentine. The dilatory and unintelligent conduct of these negotiations by cable is a heart-breaking story. I have had to take a stronger ground than I ever expected to take in discussing these matters, which are other people's business in a way, in order to keep them up to the mark. The tendency was, in the British Treasury particularly, to be discouraged at the outset and to instantly offer terms which meant substantially that we should bear the whole burden.

The various newspaper campaigns made against all neutrals in England, the United States and partly in France, are responsible for a great deal of the whole difficulty. I am glad to note in the most widely circulated French paper of this morning an article on the Spanish situation is in entire accord with the views which I have so constantly expressed. It encourages me to believe that sanity is returning on this subject, and that the Allies recognize that we cannot kick the neutrals all around just because they happen to be small; that they have very many things we need, and that the needs are mutual, and that we can go about satisfying these needs in spite of pro-German talk. Above all, I think we will find Spaniards pro-Spanish and Swedes pro-Swedish, and that all these people want to continue to do business with the rest of the world, and the intelligent ones among them will recognize the necessity of that business.

As further evidence on this point, I met Dr. Von Vollenhoven, the Dutch delegate, in London, who without waiting to have the matter raised by me said it was clear that the existing financial situation in Holland must be changed by loans to England and France. He and the Spanish Ambassador both agreed that apparently the discount under which the dollar suffered was to their advantage, but understood that in the end it would destroy business between our countries and was altogether an objectionable feature in the situation. Of course, there is just one way to change this situation concerning which our nationals have every right to complain (I mean those nationals who are engaged in business with neutrals), namely that loans should be made to France, Great Britain, and Italy to cover their balances with these neutrals. Then our dollar will automatically be put close to its proper position.

We are now about to purchase a good many million dollars' worth of goods in Spain, if possible, for the use of our Army. It is extremely important that such purchases should be made there as it saves transportation and time. We shall perhaps have to suffer as a government some of the loss due to existing exchange rates unless very rapidly we can get Great Britain and France into line with respect to their loans. I have used this matter of the burden upon our nationals and now upon us, as we begin to buy for our Army in Spain and Switzerland, as an additional reason why we must insist upon continuing to urge the necessity of obtaining these loans for the Allies. We are now voluntarily suffering because we believe in good war business to sustain the pound sterling and the franc at substantially fixed rates. It is a distinct addition to the cost of carrying on the war by us, and is at last being so recognized by the Allies.

However, all of this would have failed to interest them had I not been able to convince them that the neutrals would cease to sell goods if they could get only New York credits for their balances. I think they all see now that we must carry on a propaganda substantially along the lines indicated in my letter to the Secretary of State written a short time before I went away. I have not asked in answer to your cable about this that it should now be sent out, because I thought I should consult more with the governments here, and that they themselves will soon undertake actively the campaign indicated in that letter.

Indeed, I think it has been shown in the Argentine case that there is some danger in our mixing up too much in these matters. It was only because of the urgency of the British Treasury that I recommended that our Argentine Ambassador should be asked to join the negotiation there. We should not have to go beyond a mere friendly word in supporting the others in their negotiations. The more diplomats mixed in the matter, the less rapidly can the negotiation be carried forward. If Great Britain and France can see their own case as I am trying to have them see it, they would not need our interference, as the neutrals are just as much concerned to sell as the Allies are to buy. Or, if this rather strong, yet they are so much concerned to sell that no apologies are needed on the part of Great Britain and France in proposing now the only financial conditions which would make those sales possible. I believe, therefore, if they could once get intelligently to work, they would be able without our being mixed in it to succeed in establishing loans.

I am sending all this long screed, which is long because it is hasty, to you, hoping it will reach you quickly, and feeling Secretary McAdoo may with all his other duties be overwhelmed, and this letter will really reach him more promptly if it reaches him through you.

I also wanted to say a friendly word of personal greeting to you and to ask if you can get in touch with Mrs. Crosby. I have heard nothing whatever from her since I left Washington.[1] I presume she is all right, but it would be more of a comfort to know this definitely. I presume she may want to come over, but I have left that to her, not knowing what arrangements she and Juliet have made in the meantime. Moreover, it is not clear yet as to how much time I will spend in London and how much in Paris, and it is possible that until all these matters are cleared up it might be better for Mrs. Crosby to wait a little even if she intends to come. I do not even know where to address her now, and hence am writing a sort of letter to her by putting this in to you.

I have no doubt you must all be frightfully overburdened, and my heart goes out to you. I hope particularly the Secretary will not be broken down by the tremendous addition to his duties.

With best wishes to all around you, I am.

Cordially yours,

[s] OSCAR T. CROSBY.

EXHIBIT NO. 2981

Blue

PARIS, *Dated Jan. 14, 1918,*
[Recd. 15, 11: 12 a. m.]

SECRETARY OF STATE,
Washington, D. C.

3035, January 14, 6 p. m. For Secretary of the Treasury. Number 44.

"Argentine transaction includes establishment of reciprocal credit equal in amount to nominal loan made by Argentine to British and French. Consider all this arrangement extremely bad and have so indicated to interested parties here. Negotiation has been conducted in very irregular way, without due cooperation between London and Paris. This reciprocal credit idea was introduced with view to stabilizing exchange of Great Britain and France on one hand, and Argentine on the other, not recognizing that it opened the door to the sale of sterling and franc drafts in New York, thus substantially transferring burden of loan to us. Upon my urgency Argentine Government has been asked to go as far as it can to prevent this result by agreeing to draw directly upon Paris, and London, drafts being identified as relating to this transaction. This, however, will be insufficient protection unless further steps are taken here and London. French Government agrees to take special measures. Is probable nothing can be effective except through monopoly of exchange by British and French Governments, which now is only nominal. Have notified both treasuries that we may, in order to complete protection, be forced to take measures in Washington and New York which may in turn prove disadvantageous to other transactions, not in themselves objectionable. Have also strongly urged that reciprocal credits in future loans be avoided except to (*) extent. *Was this not* justified by payments required to be made in France and England by lending country. French Government has given corresponding instructions to their agents in Spain. I wired also in like manner to Willard.

French Government has substantially concluded loan of three hundred million francs with Brazilian Government involving reciprocal credits as above explained. This case probably not so objectionable since Brazil has large payments to make in France, but nevertheless, considerable balance is left open which may under present conditions, be transferred to New York in shape of sterling offerings.

In view of all these facts, I recommend that Treasury and Federal Reserve Board undertake at once study of system which would result in stopping all exchange transactions in New York, *those* satisfactory to Government. Understand that regulations devised by Nitti for application in Italy are well worked out, and will have copy of same sent to you.—CROSBY."

SHARP.

GSB.

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[1] Have had one letter and a cable since. Shall answer very soon (handwritten note).

(*) Omission.

EXHIBIT No. 2982

TREASURY DEPARTMENT

WASHINGTON

CLARIDGE'S HOTEL,
London, 16th January, 1918.

MY DEAR MCADOO: I am hoping to send this to you by Lord Reading, who expects to leave for America tomorrow.

Both Ambassador Page and myself have received the impression that he is expected by his Government to obtain a greater amount of help than we are now giving for the war in general, and particularly for the British end of it. I find both in London and Paris, but more particularly here, a certain unwillingness to accept the idea of a statutory limitation upon loans to the Allies. This is partly due to the fact that the Treasuries in London and Paris seem to be free to do as they please in these matters, getting from Parliament an approval ex post facto; but also because there is a feeling that we have accomplished as yet so little of direct military aid in the war that we should be unstinted in our help in other ways.

This feeling was expressed by Sir William Wiseman, a friend of Colonel House, whom probably you already know. He left for America just before Christmas, and before leaving said to me that he expected to say to our Government that if we could not find a way to do more the British Government might have to find a way out of the war. Probably something of this sentiment has already been expressed at least to Colonel House and the President, and I suppose has reached you.

My own feeling is that the statutory limitation is a good thing, if only we could take care separately of the outstanding obligations of Great Britain and France in the hands of our public. In this perhaps we should include the Morgan overdraft. If these things were out of the war, or could be considered in a separate category, I am under the impression that the amount now available is quite sufficient for all the purchases that could practically be made and transported from America, as well as for considerable aid in neutral countries.

Of course, under this letter heading, I have been perhaps more insistent than anyone else in urging that it should be limited by the making of loans, and some headway has been effected. I do not believe that anything whatever would have been done had I not come here. There is an almost incredible good-natured dull resistance to these efforts, especially here—not so much in Paris.

I am still convinced, prudently contemplating a long war, that we must put before the neutral countries the necessity of an issue on their part of domestic currency. Otherwise, there will be embarrassment. While the embarrassment may be shifted away from us, it will remain a difficult thing to finance continually on credit a larger surplus of exports over imports as between the neutrals and the Allies.

I have already wired you indicating that other measures must be taken to prevent these loans from being merely a camouflage, as, for example, when they take the form of reciprocal credits such as have been established in the Brazilian and Argentine cases. I have now the undertaking by both British and French Treasuries that they will not make any such forms of loans without referring the matter to me in the first place. Indeed, they seem quite willing to have all of their loan operations in neutral countries made thoroughly known so that we shall be protected, if we can be protected.

I am satisfied that while it may be necessary to take some rather stern measures, it yet can be accomplished. If we do not take radical measures, which I am not now attempting to discuss, I think everything may continue to fall upon us that chooses. Under this heading, I may point out that even the vast amount of Treasury bills, now $5,000,000,000 or more, which are outstanding may serve as the basis of exchange operations presenting themselves in New York. These exchange bills are of short life usually, but may go up to a year. They can be used as a form of borrowing in Holland and in other neutral countries. The owner of such a bill, particularly if it is say of twelve months' maturity, may, directly or indirectly, have it offered for sale in New York, not perhaps as a Treasury bill but as a draft made against a bank credit established through the ownership of the bill.

I am expecting to take this matter up now with the Treasury here. There will be strong resistance on the part of the Chancellor of the Exchequer to any barrage being erected in New York. I see many inconveniences resulting from it, and if we can get protection otherwise, I should of course not advise it. But, experiencing the difficulty of obtaining prompt action upon any of these matters, and not being entirely sure but that there is a perfectly conscious endeavor being made to keep New York open as a dumping ground, I wired you from Paris advising that a study should be made of measures which would make it impossible to sell exchange in New York save by consent of proper authority. I am fully aware of the fact that it will be said that no connection between bills and their sources can be established. I have, however, the highest banking authority in London and Paris as a backing in this connection, as they fully agree with me that it can be done. Lord Cunliffe distinctly holds that it is possible, and, indeed, I find him much more alive to the necessity of sound finance and to an understanding of the fact that we should not be overloaded than is the case among the Treasury officials surrounding the Chancellor.

Through a variety of delays, I only yesterday received the memorandum on exchange which was turned in to you by Lord Reading after my departure from Washington. I find a lot of discussion as to closing our market to certain neutral countries. It seems to me wholly wide of the mark. I do not know how it ever got into the discussion. The more important question as to challenging individual transactions is reverted to, and strong opposition shown which I have just mentioned above. As against the impracticability of justifying exchange operations indicated in the memorandum, I may state that both in Paris and London it is claimed that today exchange transactions are thus limited. There is a so-called free market outside. but it is felt that this also could be reduced within control if the amount of it seemed to be large and if there were not certain banking interests which were powerful enough to obtain exclusion as yet from Government control of operations in which they are interested and which in geneal seem to be innocent. The principle, however, of control is thoroughly adopted, in Paris particularly, and now, as I have already wired you, will be very rigorously applied in Italy. It will be more difficult here, as all such matters are.

I have now some good French financial assistants forming a part of the staff that will be established in Paris, where financial matters will be particularly studied, and I hope to have them get at this work immediately in order that something constructive may be sent to you. The dimensions of trade between the Allies and neutrals I am now trying to establish. I have called upon the three Governments for particulars. It is not easy to get the figures that are applicable to the present moment, as they wobble very rapidly under the operation of changing war conditions, and are also affected by special agreements such as those now being negotiated between all of us who are in the war on one side, and Holland, Sweden, Denmark, etc., on the other. These agreements practically fix new limitations in international trade. Until these are complete, the older figures are of comparatively little avail. However, everything bearing on the subject will be gotten together.

As I make this hasty dictation, I have not before me the table of maturities of Great Britain and France in the United States in the next three or four years. If, say, for twelve months ahead the maturities could be covered by some special arrangement, including the deposit of collateral, I believe we can work along under the $500,000,000 limitation quite comfortably, including something like $70,000,000 or $80,000,000 per month for a short time as advances to cover exchange operations, these operations in time to be very much reduced by the neutral loan operations. This would leave a possible expansion for American orders, and it would then remain only to have these purchases first reduced to the smallest possible amount with due reference to necessary efficiency and property distributed between the borrowing countries. On the munitions side of this work, which includes in a certain sense the general problem of military efficiency and coordination, there is in France quite a hearty assent to the plan of inquiry we always contemplated as growing out of the operations of the Inter-Ally Council. The Ministers there were quite willing that we should make inquiries of the military council at Versailles concerning reserve stocks, etc., which are now running quite at loose ends.

Mr. Bonar Law and Mr. Chamberlain urged me not to do it, however, and privately explained that there is so much feeling between the commander-in-chief in the field, Sir Douglas Haig, and their representative at Versailles, General Wilson, that unfortunate consequences might result if we actually use the Versailles council for the carrying out of one of the purposes for which it was particularly organized. This difficulty, however, we shall get over, particularly after General Bliss shall have returned and taken his place at Versailles.

While there is no public indication of the nervousness which now rather naturally hangs over the military situation, both in England and France, criticism of our military attitude is rather frequently heard. General Pershing has a hard time of it, in fact, as he is put under terrific pressure to get men into the fighting line. Both the English and French want every man that can possibly be had, and think our men should be put in in small units with the older troops, as in that way they would be used at an earlier date.

The almost complete lack of contact between Sir Douglas Haig and General Petain has made Pershing's role a difficult one. I believe as yet the three generals have never sat in the same room together, and I don't believe this is Pershing's fault. Petain is described to me by one of the French Ministers as a man of very difficult temper, unwilling to hear argument from any one differing with him. He speaks quite too openly his low opinion of General Haig's ability (however sound his opinion may be), and has made unpleasant references to Pershing in ways which it seems to me quite unwarranted. However, a last word came to me from my old friend Cambon just before leaving Paris to the effect that Pershing and Petain are now being brought into better relations with each other. The menace of a great German attack now hangs over the situation, and perhaps it will be sufficient to bring the military men to some sort of union.

Meanwhile, both in Great Britain and France, extreme efforts are being made to get more men to the front. This morning's London Times has a column or more of reports on the feeling existing among working men as the result of the recent declaration of the Government that there will be a combing out process in the various industries here in order to secure men of military age who have thus far escaped. The reports are not altogether encouraging, indicating that a vast number of people here are unconcerned about the result of the war, and have determined not to be disturbed in their present occupations; but the need is very great, and I imagine the Government will pull the thing through. They are not, however, at all confident of getting the number of men which they indicate in the press as the minimum. The Chancellor said to me the other day that their need was very great, and that no greater service could be rendered by America just now than that General Pershing should be convinced of the propriety of letting men from America come over without their equipment in order to be incorporated into the British Army, whose supplies can take care of them, and thus diminish to a large extent the transportation required.

Our own military situation in France is now quite closely related to the financing between our own Government and France, as revealed by the fact that Mr. Loucheur, Minister of Munitions, has felt it necessary to refuse deliveries of considerable amounts of ordnance and aviation material to our Army because he does not believe they are ready to use the materials. This will apparently cut off much of the supply of exchange which was counted upon for the cotton purchases of the French in the arrangements made before I left Washington. I wired you in the last few days of my efforts to obtain $17,000,000 due on deliveries which our ordnance people are now apparently ready to accept. I left Paris before the matter was absolutely clinched, after having given a good deal of time to it on discovering how hard it is to get anything through the various French and American officers that must combine "to have the baby born." I am hoping to obtain from our Army people an indication of the probable amounts that they will actually spend in France in the next two or three months. On account of the fact just above stated, we shall probably have to deal with a much smaller amount of money than we thought last fall. The French are, of course, anxious to turn ordnance into dollars, but on the other hand, are very much sobered by the situation which immediately confronts them, and are unwilling to take any risks by placing artillery in the hands of an American Army not yet ready to use it.

I think, indeed, their whole sentiment is a bit chastened since they have obtained the adhesion of our Government and that of Great Britain to the Alsace Loraine claim. That claim, of course, is not one which they particularly want in and for itself. Most of the Frenchmen who talk about it and who are under sixty years of age will state that they care really very little about Alsace Loraine except as it suggests victory over the Germans, and something which they like to think of as compensation for the losses which they have suffered. I believe they will be in a very embarrassing position if the other objectives stated by President Wilson and Mr. Lloyd George can be obtained in a moderately short time, if they then find themselves faced with a prolonged war due to the difficulty of wrenching from the Germans a territory which is now considered as an integral part of the soil of the Empire. I find also that the French are quite unwilling to leave the fate of Alsace Loraine to a plebiscite, which the Germans might in some event be willing to offer, as it appears they would run comparatively little risk. The careful wording adopted both by Mr. Lloyd George and President Wilson in respect to Alsace Loraine would apparently put it up to the French as to how far the war shall be prolonged if the British and American programs are satified in all points except that one. All this they are beginning now to see, and the strong currents running, among the Socialists particularly, in favor of some sort of transaction with Germany to be effected if possible through the Russian situation, are beginning to run against the existing Government. One hears rumors of the possibility of an early change in the Ministry.

In the meantime, in all three of the Allied countries, the existing Governments feel that they must turn toward us more and more, and if they cannot obtain larger numbers of troops, they will want to obtain whatever else we can give, which is, of course, chiefly money and material. However, I do not see that for some time they will be unable to meet their own expenses in their own territories, as there is no hardship being suffered anywhere as yet in Great Britain and France. Italy, on the other hand, is in very dangerous condition, not that the financial system is weak, but that they are actually lacking in the necessary coal and cereals for an efficient national existence.

As time goes on, I think the British and French Governments will ask us to take over some of the burdens they bear in maintaining the Belgian and Serbian Armies. The British may also ask us to relieve them of what they now do for Italy. British loans to France are on the basis of about 16,000,000 pounds per month, of which approximately half, however, really falls to us, as the sterling credit established for France is used to that extent in making purchases in neutral countries, and hence swells to a large extent the exchange transactions in New York. This particular burden, of course, ought to disappear with the success of the neutral loan operations; but if we do not find rapid diminution in that department, it may be well to have this amount separated and turned directly into the channels between the United States and France.

In order to understand the Italian demand for taking up some of their earlier war material purchases made through private concerns, Cravath has gone over the papers on the ground. He will be back in London tonight and will doubtless bring with him some more general information, whatever may have come in to him, in respect to the readiness of the Government and the people to go on with the struggle if they fail to receive in the next month or so the coal and cereal supplies of which they stand so much in need.

Colonel House, before leaving Paris, suggested it would be a good thing if I should go to Italy as soon as convenient in order to judge of the general situation; but I preferred not to do so until it should be more clearly understood that a general inquiry, as well as one strictly of the financial situation, was desired. I think, moreover, that Ambassador Page has probably kept the Government fully informed, as I believe he is in very intelligent and sympathetic touch with the Italian Government. The presence in the various European capitals of officials other than the Ambassadors, must be vexatious to the latter unless the newcomers show considerable thoughtfulness in carrying out their work. I am glad to say that both Mr. Sharpe and Mr. Page have assured me that instead of impeding in any way their proper functions they feel I have been of help. Certainly they continue to give me their most friendly aid in transmitting and receiving telegrams, and in conferences whenever I desire, as I frequently do, to talk things over with them.

The situation, however, is still a complicated one. Thus in the matter of the negotiations with neutral countries, it is not at all clear as to who is responsible for their conduct. I was asked by Ambassador Page here to give some direction to the Swedish negotiation when it began in London but have never received any further authority in that matter. Consequently, it is apparently in several different hands under several different heads. Each of these transactions being conducted with four powers on our side, and each of those four powers having five separate departments represented in the neogtiations with the neutral countries, it follows that twenty individual and independent springs of action may come to play upon each neutral negotiation. Of course, there has been much confusion as a result.

The Swiss situation is just now particularly difficult, and I am left quite in the dark as to how far I can go save in a personal and unofficial way to help in straightening it out. Mr. McCormick wires me that he considers an agreement was reached whereby tonnage was to be found for the Swiss, and he further considers that the English and French are parties to the engagement. The English shipping people, on the other hand, say they have nothing to do with it, that it is purely an American transaction. The French take the same attitude, and both, I believe, apparently state that they do not consider any engagement was made by anybody to furnish the transport for the cereals promised to Switzerland. In the meantime, acting upon the faith of their understanding, which seems to be the same as that of Mr. McCormick, they have made a loan to

France and are now hanging up the loan to England. I quite sympathize with their distress in the matter, as it looks to them as though some of us, who are the big fellows, are playing a bad trick on them. Meanwhile, our own Army people are deeply interested, as they are extremely anxious to get cross-ties and some other material in Switzerland.

On account of our deep interest in the loan question, I feel it my duty to give some attention to the situation, but would feel more comfortable if I am assured that such advice as I give to Mr. Sheldon, who has come to me in the matter as representing, I believe, the War Trade Board, will not be construed as intrenching upon their proper functions. I imagine the confusion must grow still worse before suggestions as to bettering the situation will be welcomed. I do not say this with the slightest meaning of reproach, because it is wholly natural that those who have been charged with the responsibility in Washington for the various interests of our Government in these matters should find it difficult to promptly arrange for proper representation in Europe. Even when each one of our various departments is represented, the confusion will still exist to a considerable extent on account of the interrelation of all these interests one with the other, and the interrelation between our national interests and those of the Allies, who have equal voice in the transactions. We shall undoubtedly have a crop of resentments due to misunderstandings, but that must be borne with.

The Spanish situation is in better shape, inasmuch as the negotiations are taking place in the neutral country with our own Ambassador to that country present to serve as a single director of our interests and to give friendly support to the French, English, and Italians who want to borrow money. The difficulty arises when the transaction takes place say as in London for the Swedes and Dutch, or in Paris for the Swiss, where our own Ambassador is not directly cognizant of and responsible for the relations of our Government to the country with which the negotiation is taking place.

Mr. Auchincloss, speaking I presume for Colonel House, asked if I would give some attention to the Polish societies in Paris and London, as he knew the President was extremely anxious to have complete information on the subject of Poland. I, of course, would be glad to do this, but for reasons stated in recent telegrams to you, and indicated I think clearly enough in this letter, I would prefer to have some further direction in the matter before undertaking it.

My mind turns away from all this European mess to wonder how you are bearing the great strains that have recently been laid upon you. While we must all give ourselves freely to the country's service and be willing to see our friends do the same, I cannot escape concern for those to whom as to you I have personal attachments as well as official. Both of us are so constituted that we can't help working to the limit; hence preaching is of very little good to either one of us. I can therefore only express a hope that you are managing somehow or other to take some care of your strength, which is now so sorely tried.

With that hope, and with expressions to those around you of my continued and unchanging regard, I am

Very hastily and sincerely yours,

/s/ Oscar T. Crosby.

P. S.—Glancing over this letter, I see it is rather incoherently sewed together. It is too late to rearrange it as we have to get it to Lord Reading in a very short time.

I will only add one more word about the exchange situation, with the request that it be passed on to Leffingwell, Strauss, and the members of the Federal Reserve Board, who are doubtless thinking about it. There are two ways of attacking this subject of control: One is by stopping every exchange transaction until it passes inspection. This is perhaps an unnecessarily harsh method. The other is to give the support of a fixed rate, such as now exists with respect to the dollar and the pound sterling, to justified transactions, letting other transactions find such rate of exchange as the market may afford; in other words, to limit the amount of our support at a fixed rate to those transactions which are approved by our Government, and presumably also approved by our associated governments. This would really mean two different rates of exchange, one set at 4.76, the other possibly as low as anything you please and covering such transactions which, though legitimate in the general sense of the word, might not be of special concern to the Governments, and perhaps also too numerous to warrant complete investigation and control. This second method is substantially that which is operating in Paris. I have not investigated it sufficiently to desire now to propose it, but make this hasty note concerning it in order that it may receive the attention of others.

EXHIBIT NO. 2983

2315 MASSACHUSETTS AVENUE,
Washington, D. C., October 29th, 1917.

Hon. W. G. McADOO,
Secretary of the Treasury,
Washington.

MY DEAR MR. SECRETARY, I enclose a statement on the subject of exchange. I have put it in the form of a memorandum, as I think this will be the shape in which you will find it most convenient.

The figures in regard to sterling balances held by neutrals in London were given by me to Mr. Crosby on October 28th.

I am, my dear Mr. Secretary,
Yours very sincerely,

[S.] READING.

Memorandum for the Secretary of the Treasury.

EXCHANGE

After my conversations with Mr. Crosby and Mr. Davis last week on the subject of the present system of supporting sterling exchange and of the use of advances made by the United States Treasury to the British Treasury for the support of exchange, I telegraphed home at length to the Chancellor of the Exchequer, and have now received replies.

SPECIFIC POINTS

I will begin with answers in regard to the specific information asked.

(1) The exchange transactions of the National Bank of South Africa have already from time to time been carefully considered in London, and it is clear that the business which this bank is doing is nothing more than an ordinary brokerage business. It is probable that the bank has succeeded in attracting a good deal of extra business to itself by cutting rates. The Chancellor of the Exchequer does not believe that any reduction in the total amount of sterling drafts offered can result from the elimination of this bank from the business, but he has now decided to ask the London exchange committee to take steps to secure that, pending further notice, the National Bank of South Africa shall confine its business in exchange to transactions on behalf of its own commercial customers.

(2) Mr. Crosby asked me to ascertain the amounts of neutral balances carried by British banks. The Chancellor of the Exchequer has supplied me with the following figures of neutral balances on October 13th: Total sterling balances, including Treasury bills, held by neutrals, £78,099,000, made up as follows:

	£
Norway	30, 484, 000
Denmark	14, 221, 000
Holland	8, 949, 000
Brazil	7, 533, 000
Spain	6, 842, 000
Others	10, 070, 000
Total	78, 099, 000

The Chancellor of the Exchequer recognizes that any sudden removal of these balances to New York would involve danger, but it appears to him that the danger is lessened rather than aggravated by the action of the United States in placing an embargo on gold exports. He adds that there is no sign at present of any tendency to remove these balances from London.

This covers the specific points on which information was asked. I turn now to the general question.

GENERAL QUESTION OF EXCHANGE

The Chancellor of the Exchequer understands that objection is not raised to the employment of the dollar credits in the hands of the British Treasury for the purpose of paying for purchases in the United States under the item "Exchange", whether such purchases are made by Great Britain or by constituent parts of the British Empire. He understands that the objection is mainly to the use of such credits for the purpose of paying for Allied purchases from neutral countries, more particularly if those neutral countries are likely to wish to draw gold from the United States. Mr. Bonar Law further understands that the United States Treasury raise objection to the credits being used to cover the withdrawal of sterling balances from London by the United States banks.

CONSIDERATION OF PRACTICAL SUGGESTIONS

I. In regard to the withdrawal of American balances from London, Mr. Bonar Law suggests that the action most likely to be effective would be some action taken in the United States, e. g. the issue of a circular by the United States Treasury or Federal Reserve Board to New York institutions on the subject of their balances in London. It is not apparent what action the British Treasury could take in this matter.

II. Careful consideration has been given to possible methods of limiting the amount of neutral arbitrage over Lndoon and New York. One suggestion considered has been that exchange should be furnished only for approved purchases. The Chancellor of the Exchequer is satisfied that this is absolutely impracticable and would lead to an immediate breakdown in the machinery of exchange. An alternative suggestion would be that arbitrage should be prohibited altogether on açcount of certain specified neutral countries. British experience in connection with the financial blockade makes it appear that joint action by the United States and British Treasuries might be successful in keeping arbitrage on behalf of specified neutral countries within very narrow limits, even if it could not entirley stop it.

The method of operation to be followed would be for the British and American Governments, acting presumably through the Treasuries, to prohibit banks in Great Britain and in America from taking part in any or all of the following transactions, whether directly or through an intermediary:

(a) The transfer of sterling from a neutral account in London to an American account in London, whether by the negotiation of sterling bills by neutrals in the United States, or by the negotiation of sterling bills in London.

(b) The transfer of dollars from a British account in the United States to a neutral account in the United States.

(c) Any other financial operations, the effect of which is to enable a neutral holder of sterling balances to transform his sterling into dollars.

Such regulations could, no doubt, be evaded on a small scale, but if all the leading banks in London and in New York were to agree to act on the spirit as well as on the letter of these regulations, and to refuse all business of the kind prohibited, British experience suggests that evasion would be impracticable on a large scale.

CONSIDERATION OF DESIRABILITY OF LIMITING EXCHANGE

Thus far, the practicablity of this control of neutral arbitrage is all that has been considered. When its desirablilty is taken into account, the Chancellor of the Exchequer points out in the first place that it would restrict within very narrow limits the amount of the assistance with Great Britain could continue to afford to the Allies. The Chancellor of the Exchequer would regard such limitation of neutral arbitrage as preferable to a general breakdown of exchange, but otherwise as in every way undesirable.

He points out that if arbitrage over New York were prohibited, it would be essential that the British Treasury should prohibit arbitrage operations in sterling in London in respect of the same neutral countries by the Allies of Great Britain. Ever since the beginning of the war, the British Treasury has furnished the Allies of Great Britain with large sums for expenditure abroad, and has never followed the policy of objecting to this kind of assistance. At the present moment, some portion of the Allied purchases in certain neutral countries, such as Spain and Argentina, can only be paid for by use of the machinery of finance out of resources of the United States. The British Treasury is at present furnishing financial facilities to Allies in a form which renders it unalbe to provide them from its own resources. The balance required has to be provided over New York, the sterling with which the Allies pay for their purchases in these neutral countries being converted by arbitrage into dollars and paid for by the British Treasury out of dollar credits furnished for exchange by the United States Treasury.

CONCLUSION

If, therefore, the arrangements suggested for controlling neutral arbitrage were put in force, Mr. Bonar Law would be compelled simultaneously to withdraw all financial facilities now granted by the British Treasury to the Allies in the neutral countries affected, to prohibit any arbitrage over New York on Allied account as well as on neutral account, and also to prohibit arbitrage by the Allies over London in respect of any of the neutral countries whose claims we should be precluded from satisfying over New York. It is only if all these steps were taken, and if in addition the purchases by British departments in the neutral countries affected were still further curtailed, that restrictive measures could be put into force without a general breakdown of our credit arrangements.

It is clear that the effect upon our Allies of such measures would be disastrous unless the United States Treasury were to step into the breach. The bulk of French and Italian expenditure in the Argentine for which we at present make exchange arrangements is for essential foodstuffs without which those countries could not continue the war. Mr. Bonar Law feels that he could not enter into arrangements for the control of neutral arbitrage which would have such a result upon the Allies and indeed might involve the economical lapse of the alliance unless the United States were willing to give some formal assurance that they would come to the rescure of the Allies as far as lies in their power.

If such assurance could be given there would be the advantage that America would be giving financial support direct to the Allies instead of indirectly through Great Britain, and the United States Treasury would be in a position to say that the money was for French and Italian food supplies instead of as now that it is for the support of British exchange. On the other hand, it must be borne in mind (a) that though there might be some very slight diminution of the net claims upon the United States Treasury, the greater part of the sum by which the advances to Great Britain would be reduced would have to be furnished by the United States Treasury in the form of increased advances to the other Allies; (b) that a novel procedure such as is proposed involves consequences which are not easy to foresee, and that the suggested change might therefore cause dangers which may perhaps not have been fathomed. Indeed, it is a matter for the most serious consideration whether it would be politic to make so great a change to obtain so small an advance.

In any event, the matter is of such far-reaching importance that the British Government would not take action so vitally affecting France and Italy except on the direct and formal request of the United States administration.

OCT. 30/17. [s.] READING.

EXHIBIT NO. 2984

BRITISH EMBASSY,
Washington, 27th February 1918.

[Pencilled: Mr. Rathbone]

The Honourable W. G. McADOO,
Secretary of the Treasury, Washington.

DEAR MR. SECRETARY: The British Treasury is negotiating for a loan in Holland, and the Dutch are asking for collateral to be put up. This will involve the use of some of the securities controlled by the British Treasury which are now in the United States of America. It seems probable that some part of the collateral will have to take the form of American securities, but every effort will of course be made to use other securities. The amount required would not exceed $50,000,000 worth of securities.

I should be obliged if you would kindly let me know whether you would see any objection to this proposal.

Believe, me, dear Mr. Secretary,
Yours sincerely,

(Signed) READING.

[In pencil: We replied Mar. 4. See also memoranda of Mr. Straus and Mr. Rathbone on this subject]

EXHIBIT NO. 2985

[Pencil notation: Mr. Rathbone, I think we should not delay this transaction. R. C. L.]

MARCH 11, 1918.

The Honourable WILLIAM G. McADOO,
Secretary to the Treasury Department, Washington, D. C.

DEAR MR. SECRETARY: In reply to your letter of March 4th (which was not delivered at the British Embassy until March 8th), I understand that it is hoped to have ready for you early this week, the list of securities sold by the British Treasury in the United States since the date of preparation of the lists already handed to you of British controlled securities held as collateral for the call loan or over-draft and for the British Government secured notes paid off on February 1st.

My information as to the proposed loan in Holland is that an amount of 15,250,000 florins a month is being asked for over a period of ten months making 152,500,000 florins in all, the loan to be repayable on October 1st, 1921, and to be in the forms of British Exchequer bonds. The bonds would be repayable in sterling at any time at the rate of £1.0.0. sterling at 12.15 florins; the American securities required as collateral would be deposited with the Federal Reserve bank. As stated in my letter of the 27th February, the amount would not exceed 50,000,000 dollars worth.

Mr. Crosby has been strongly pressing the British Treasury to arrange the loan with a view to improving the exchange position and the British Treasury accordingly sent a mission to Holland. Progress in the negotiations is now arrested pending a reply from me on the matter. I should, therefore, be much obliged if I could receive an answer from you on the question of principle at your earliest convenience.

Believe me, my dear Mr. Secretary,
Yours very sincerely,

(Signed) READING.

EXHIBIT NO. 2986

MARCH 12, 1918.

His Excellency The EARL OF READING,
Ambassador on Special Mission in charge of His Britannic Majesty's Embassy, 7599 Connecticut Avenue, NW., Washington, D. C.

DEAR LORD READING: Answering you letter of the 11th instant, I do not wish to delay negotiations in regard to the Holland loan and am willing that about $50,000,000 worth of the securities held by or for the British Government in the United States be used to secure this loan. I should like to know just which securities it is desired to use for the purpose but if the matter is pressing I leave it to you to decide.

I am, my dear Lord Reading,
Very truly yours,

(Stamped) WM. G. McADOO.

[Pencil notation: Reading's original letter Feb. 27; our reply Mar. 4; Reading's reply Mar. 11.]
[Pencil notation: Lord Reading replied Mar. 14.]

EXHIBIT NO. 2987

High Commissioner, The Earl of Reading, G. C. B. Assistant Commissioner for Finance, Sir S. Hardman Lever, K. C. B. Financial Secretary to the Treasury

BRITISH WAR MISSION,
OFFICE OF THE BRITISH TREASURY REPRESENTATIVE,
85 Wall Street, New York City, September 20, 1918.

Hon. ALBERT RATHBONE,
Treasury Department,
Washington, D. C.

DEAR MR. RATHBONE: In reply to your inquiry on the telephone, I find that the only neutral securities which have been taken out of the list of securities owned and controlled by the British Government as of June 15, 1918, for the purpose of deposit in connection with a foreign loan are those taken out for deposit in connection with the British loan in Switzerland, viz:

Argentine

Argentine Government 4% loan of 1897	£250,000
" " 5% loan of 1886/7	250,000
" " 4% loan of 1899	250,000
" " Northern Central Railway extensions 5% 1887/9	200,000

Chile

Chilean Government 4½% loan of 1886	£300,000
" " 5% " " 1896	280,000

In addition, 21,880 shares of the Canadian Pacific Railway Company common stock have been deposited for the purpose of the same Swiss loan.

Yours sincerely,

[s] BASIL B. BLACKETT,
(For the Financial Secretary to the Treasury).

EXHIBIT No. 2988

SEPTEMBER 21, 1918.

BASIL B. BLACKETT, ESQ.,
British War Mission,
23 Wall Street, New York.

DEAR MR. BLACKETT: Many thanks for your letter of the 20th instant advising me of tne securities, for the purpose of the deposit thereof in connection with the British loan in Switzerland, taken out of the list of British Government owned and controlled securities as of June 15, 1918, heretofore furnished the Treasury Department.

Am I correct in assuming that these are the only foreign securities shown on said list the control of which has been since parted with by your Government?

Will you be good enough to let me know whether under the terms of the Swiss loan agreement additional Argentine and Chilean securities are to be deposited for the purpose of the same. From Lord Reading's letter of April 12th to the Secretary of the Treasury it would appear that it was expected that ultimately one-third of 5,000,000 pounds of Chilean securities and a similar amount of Argentine securities were to be deposited as security for the Swiss loan. It may be that certain of the Chilean and Argentine securities were deposited prior to June 15th and therefore do not appear on the list of securities owned or controlled by your Government as of that date.

I am, dear Mr. Blackett,
Very truly yours,

(Signed) ALBERT RATHBONE.

AR/MEH.

EXHIBIT No. 2989

SEPTEMBER 21, 1918.

(Charge to Treasury Department.)

AMEMBASSY,
London:

For Crosby from Rathbone. Treasury 434. Supplementing our 410. Were informed April 12 by Lord Reading that to secure British loan negotiated in Switzerland, British owned and controlled securities in United States would have to be deposited to value of 5,000,000 sterling and divided in equal thirds between Argentine securities, Chilean securities, and Canadian Pacific Railway securities. Blackett now advises that since June 15 there have been deposited for purposes of said loan the following Chilean securities: 300,000 pounds Chilean Government 4½% per cent loan of 1886 and 290,000 pounds Chilean Government 5 per cent loan of 1896. Have asked whether other Chilean securities were deposited before June 16 and therefore not included in list furnished us as of that date or whether they are obligated to deposit further Chilean securities. Will cable you when information received.

——— ———,
Assistant Secretary of the Treasury.

EXHIBIT No. 2990

SEPTEMBER 27, 1918.

(Charge to Treasury Department.)

AMEMBASSY,
London:

For Crosby from Rathbone. Treasury 450. Supplementing our 410 and 434, Blackett advises British committed to supply additional Chilean securities of value about £1,000,000 as security for Swiss advances to British if made. Delivery of these securities, if needed, will have to be made from list set forth in our 410.

(Signed) ALBERT RATHBONE,
Assistant Secretary of the Treasury.

AR/AP.

EXHIBIT No. 2991

SEPTEMBER 27, 1918.

Memorandum for files.

Mr. Blackett advised that certain of the securities deposited under the Swiss loan to the British had been deposited before June 15, 1918, and, therefore, did not appear on the list of British owned and controlled securities in the United States of June 15. In addition to the securities appearing on said list which had since been deposited under this loan as set forth in Mr. Blackett's letter of a few days ago, the British might still be obligated to deposit about £700,000 of Argentine securities and about £1,000,000 of Chilian securities.

[s.] A. R.

102.1/676

EXHIBIT No. 2992

(*Telegram received from Paris, dated March 13, 1918. Rec'd. 14, 5:22 a. m.*)

SECRETARY OF STATE,
Washington, D. C.

3350, March 13, 12 p. m.

"For Secretary of the Treasury, number 205. Present status of French and English negotiations for credits in neutral countries as now reported. Sweden. British loan accepted in principle. Chancellor prepared to furnish security for loan if necessary. Amount will depend on commercial and shipping agreement. Considerable increase of English trade is contemplated, which should improve exchange situation. French purchases in Sweden small and paid for out of remaining balance of forty million kroners credit obtained in 1916, which they hope to renew again this year, interest about eight per cent.

"Norway: French report sufficient balance remains of second credit of twenty-five million kroners to cover their purchase for next six months in that country. Are renewing original credit, interest about seven and one half per cent.

"Denmark: French not committed to any operation.

"Holland: English report progress toward obtaining secured loan though matter may be complicated because of Dutch ships controversy with us. French expect to pay for their purchases, which are not large, with proceeds Dutch subscriptions their four per cent loan. This is not likely.

"C. R. B.: Credit seems assured covered by joint guarantee French and Belgian Governments. English assent given on understanding operation to be considered distinct from their negotiations.

"Spain: English apparently making no headway toward loan there. Shall ask them to renew efforts. French have secured loan three hundred fifty million pesetos, interest eight per cent and commission, one third to be used by wine and food purchases.

"Brazilian Republic: French have arranged reciprocal credit but not sufficient to cover balances.

"Uruguay: England has twenty-five million pesos reciprocal credit secured by collateral. French are offered similar credit. They have no Uruguayan securities, but believe a reciprocal credit may be arranged. This will be of some benefit to us if surrounded with safeguards now being proposed by me as in case of Argentine loan.

"Japan: French are negotiating for a second series of Treasury bills fifty million yen. Agreement reached on principal, but issue to be subordinated to one for English account.

"Switzerland: French report agreement based on economic concessions which grants them credits against collateral composed of securities and drafts signed by French bankers and industrials, seven per cent interest and commission. Amount of monthly credits conditional upon tonnage for importation and transit from France to Switzerland, minimum of two million five hundred thousand Swiss francs a month. Agreement covers period ten months, beginning January. French expenditures are high, due to French prisoners interned in Switzerland to purchases lumber and war supplies, large part of which they report is transferred to the Allied armies in France. English report they are still meeting difficulties due to Swiss demands for tonnage, imports, et cetera, which Great Britain does not desire to meet. This credit is one of ten million Swiss francs a month, to be used for new purchases. Swiss officials tell me they are willing to make this loan but hesitate while good situation is left in dangerous state, and though loan will not be formally linked with wheat supply promised by us, still it will probably not be consummated until some tangible evidence can be given to people that grain is forthcoming. Sentiment now chiefly directed against Great Britain, Swiss considering that Government responsible for refusal allocate tonnage, and for refusal to permit Swiss purchase of neutral tonnage from it from danger of being requisitioned if found in British ports. Further loans to any borrower may be frustrated by political situation in Switzerland, which is growing serious due to the lack of food, unemployment and agitation by Russian revolutionary agents, all producing anti-Ally sentiment. Confidential. Figures given me seem to prove that Switzerland, while preserving her neutrality, has loaned or has been willing to loan more to the Allies than to Central Powers.

"Loans granted by Switzerland: To France, first loan fifty million, second loan thirty-seven million five hundred thousand, October, November, December 1917, third advance, which may reach twelve million five hundred thousand per month, up to the extent of one hundred twenty-five millions.

"To Italy: Negotiations are now being continued for granting of an advance of four million five hundred thousand per month, during ten months, forty-five millions.

"To England: In the course of negotiations for an advance of ten millions per month for ten months, one hundred millions.

"To Germany: First loan forty-five millions, second loan forty millions, third advance on coal twenty million during nine months from August 1917, up to April 30, 1918; that is, one hundred eighty millions but limited to about one hundred thirty millions in consequency of the insufficiency of coal deliveries.—CROSBY."

SHARP.

CSL.

EXHIBIT NO. 2993

Loans raised abroad by His Majesty's Government since the beginning of the war to end of April 1918

Norway	June 1916	Kr.	40,000,000	A small part of these loans has been repaid, the balance is repayable about July 1918 but negotiations are now in progress to extend the maturity till after the war.
"	Sept. 1916	Kr.	140,000,000	
"	May 1917	Kr.	51,500,000	A substantial part of this loan is still unexpended.
Denmark	June 1916	Kr.	30,000,000	These loans are repayable on the declaration of peace. Substantial funds are still in hand.
"	1917	Kr.	30,000,000	
Sweden	Dec. 1916	Kr.	7,500,000	Repaid February 1917.
Holland	various dates	£	16,441,000	British Government Treasury bills taken by Dutch subjects in payment for purchases of agricultural produce. Of these £8,036,000 and Fl. 700,000 are now outstanding.
	Sept. 1917	Fl.	700,000	
" (Java)		£	1,950,000	British Government Exchequer Bonds taken by Dutch subjects in payment for sugar.
Switzerland	March 1918	Fr.	100,000,000	Up to Fr. 10,000,000 per month according to Swiss goods reaching European ports. Up to present Fr. 10,000,000 advanced.
Argentine	Jan. 1918	dollars	100,000,000	For purchase of wheat and Argentine produce.
Uruguay	Feb. 1918	pesos	15,000,000	For purchase of wheat and Uruguayan produce.
Japan	Dec. 1916	yen	30,000,000	Three year bonds.
"	Jan. 1917	yen	70,000,000	
"	Jan. 1918	yen	80,000,000	British Government Treasury bills; due January 1919 renewable.

EXHIBIT 2993–A

EXCERPTS FROM FINANCE ACCOUNTS OF THE UNITED KINGDOM 1919–20

(London: H. M. Stationary Office 1920, pp 77–78)

Treasury bills:

Outstanding on 31st March 1920, £1,107,318,000.

Of this amount £48,622,000 was issued as collateral for sundry loans payable abroad.

Other debt payable in sterling:	
5% Exchequer bonds 1922 (Japanese ships)	£828, 000
6% Swedish notes 1920	191
Other debt payable abroad [outstanding Mar. 31, 1920]:	
Japan: Yen Treasury bills, 70,000,000 @ 2s 0.582d—1 yen	7, 169, 750
Argentine: 5% Government loan 1921, $96,000,000 @ 4s—$1	19, 200, 000
Uruaguay: 5% Government loan 1920, $23,817,505 @ 5s—$1	5, 954, 000
Holland: 5% Exchequer bonds 1920 (Dutch Sugar), Fl 8,913,600 @ Fl 12—£1	742, 800
Sweden: 6% 3 yr. kroner notes 1921, kr. 15,000,000 @ kr. 18.159—£1	826, 000

NOTE.—Pencil notation enclosed in brackets.

EXHIBIT NO. 2993–B

Outstanding Mar. 31, 1921:	
Sweden 6% 3 year kroner notes 1921—kr. 15,000,000	£826, 000
5% Exchequer bonds 1922 (Japanese ships)	—828, 000

Outstanding March 31, 1922: None.

EXHIBIT NO. 2994

10 GROSVENOR GARDENS,
LONDON, S.W. 1, *August 23, 1918.*

Mr. B. M. BARUCH,
War Industries Board, Washington, D. C.

MY DEAR CHIEF: We had a most interesting ten days in France. The big gun did not shell Paris while we were there though we had one air raid, which did not penetrate to the heart of the city. Our trip to the front was particularly interesting as the French had made an advance that day and we were in time to see the finish. We went up with the artillery and stood by some of the heavy guns as they got in their work. All told, it was extremely interesting. We went to Chauteau Thierry and followed the line of battle to the north. We had luncheon with General Mangin who was extremely proud of the Americans and whom I think is one of the great generals of France. You will see during the last week that he has been making good at a very lively rate. There is one thing you can remove from your mind and that is that there is any bleeding France. The behavior of the American troops has electrified all of France, and from a depressed, harassed nation they have suddenly become an exalted enthusiastic one. The rapid arrival of American troops and the magnificent performance of them and their heavy expenditures of money have revived France.

You will realize what it will mean if the Army is to be increased from 30 to 80 divisions. As our production of munitions has been so delayed, we have called more and more on France to equip the first troops, and the program as it is being outlined will call upon both France and England to equip a large part of the 80 divisions. This financial expenditure made in France will change the balance of trade to such an extent that within ten months America will be a debtor nation to France. Add to this the very heavy expenditures made by our soldiers in France, as they spend all the money they get, and you have a situation rapidly developing which is a very complex international financial problem. It seems to me inevitable that if we enter into this collossal expenditure in France and place ourselves in debt to France, before the war is over, we will find ourselves trying to finance the return of the American Army, unable to maintain the value of our money except by gold exports, and we may be drained of a large portion of our gold in the critical post-war period of reconstruction, with a tremendously extended credit situation in our own country. That is a picture your acute mind can size up, and to my mind it is so critical it should be brought to the attention of our strongest men. I wonder whether the President and Mr. McAdoo appreciate the possibilities of this. The Quartermaster Department here in London has been purchasing heavily from the English manufacturers of uniforms and shoes. I have not personally gone into these prices or made an effort to compare them with the purchases in America, but it would seem unwise to buy abroad if we have facilities in America that can produce these materials. You appreciate the failure of the Ordnance Department to either accept a European detonator and adapter which they are using continuously but attempt to develop a new type of their own has held back the shipment of artillery ammunition through all of these months and after seventeen months at war we have not shipped enough artillery ammunition abroad to fight a one day's battle. The necessity of using French guns and French ammunition will require very heavy financial settlements. The replacement accounts for our Army for materials which have been borrowed under the open-handed plan of replacing in kind is causing a perplexing situation, and we are further confronted with the necessity of large purchases from Switzerland and Spain in the form of lumber, horses, and similar materials. I dwell on these details as the proposed increase in the military program will accentuate them at a tremendous rate. Of course, Mr. Stettinius' ability will show itself in straightening out the situation that has developed and there are a number of capable American business men in Pershing's Army, such as C. G. Dawes and H. M. Billsy of Chicago, who would give great assistance.

One thing that surprises me as absurd is that the French charge the British a rental for trenches and they also charge the Americans this rental. In the little villages in France where the troops have been billeted, the residents have made claims for damages, for instance: They claim damages where windows in a house have been broken, and it looks as if these charges could be made against each lot of soldiers who arrive. This is only a step to charge the American troops with damages that may be inflicted. For instance, in this recent advance north of Chateau Thierry there have been several villages completely demolished. It was necessary to ruin the city before the advance could be continued. Are the French going to charge the Americans for these buildings? The French Government has a reconstruction department which enters these villages and where it is safe starts to restore them so they can be made habitable and you can appreciate what will happen if the Americans are forced to take a prominent part in the advance with 80 divisions in the field. The havoc wrought to many of these villages will be terrific and unless there is some understanding there will be a bill for damages that will be quite a tidy sum.

Crosby has been working under a tremendous strain and with an inability to get at the facts where requests are made for loans. He feels that where he has attempted to hold up a loan he has been the subject of grave criticism, and he was delighted to find when he got back to Paris that we had thrown down a number of requests on the ground that the information was insufficient. This particularly delighted him when he found that we had joined in the completion of program committee, and that we were capable of furnishing complete statistics and therefore were in a position to demand the same statistics of the others. He was afraid American statistics would not be complete or applicable, and that we might suffer by comparison. So far we have put forth statistics, particularly on raw materials, and we have been in better shape than anyone else, not excepting the English, whose steel reports are not comparable to ours. The above questions are all very grave and they may well require the attention of our ablest men. I am of the opinion that the President and Mr. McAdoo, as well as yourself, must be represented in Paris by a strong group of men. Our work is rapidly taking a form of not only advisory programs on shipping, but far more important advisory on the Allied loans, and as this mission is dealing entirely with the question of Allied supplies, I suggest to you that provision be made to meet the expense of the mission from the Treasury Department's appropriation towards Allied purchasing. I dislike to see the expenditures we are making charged to your personal account, and yet there is no possibility of running the mission on an inadequate basis. There are many questions of importance here in England that require the presence of someone to take charge of these program committees, and at the same time there is need in France of a man of general experience in raw materials and a technical knowledge of munitions. It is very difficult for any American officers to deal with the Allied military officials and do anything but agree on a military program. There has been a tendency for months past to put military urgency to the front and force everything through on that basis, and I have no doubt that in the period following the German advance of March 21st this was conspicuously true. This situation does not exist at the present time, and from what I have seen every effort will be made by the French and British to not relinquish the precedent they have established, and they are practically insisting that we become "rubber stamps" to anything they suggest. I may have to return at any time from inability to get along with these conditions but I am determined that this mission shall not be a "rubber stamp" and I have taken this position so absolutely that it is bound to produce results. There is a more marked tendency to cooperate and let the facts determine the recommendation. We have been of great assistance to Italy in forcing the British to make up their arrears and fulfill their agreements. Before we started in playing "Lady Bountiful." I told one of the military members the other day with whom I was meeting in Paris that we had a bottom to our pocket and we had a button on the top when he had suggested a program that to my mind was ridiculous.

If you have any suggestions or instructions to give, it is needless to say they will be thankfully received. I have no wish to increase the importance of the mission or to interfere in any way, but I cannot too forcibly bring to your attention the necessity of permanent representation in both London and Paris. The War Industries Board has more accurate information of our American industries and a broader view of the entire situation than any department of the Government can have, and we are so tied up with the Allied situation through our acting as the Allied purchasing agent, we should scrutinize requirements from this side and not attempt to paralyze American industries through blindly following some program that has not been adequately scrutinized or properly analyzed. The situation is developed in Europe and the analysis of the situation must be developed at closer range than hitherto. Please give this your earnest thought and work out the plan of action that will suit you, not forgetting to advise me as early as possible if you wish me to return in October. It is needless to say I am absolutely at your command and there is no personal preference in the matter.

Affectionately,

(In pencil) L. L. SUMMERS.

P. S.—Mr. Anderson will probably leave during the first five days of September, as he expects to complete the Tin Executive and the Tungsten Executive within the next few days. He will be able to give you at first hand his opinion of conditions.

EXHIBIT NO. 2995

SPECIAL UNITED STATES COMMISSIONER OF FINANCE IN EUROPE,
Sunderland House, Curzon Street, London, W. 1, 27th September, 1918.

[Pencilled: To Secretary McAdoo from R. C. L.]

The honorable the SECRETARY OF THE TREASURY,
Washington, D. C.

SIR: In cables of earlier date, I have expressed the opinion that arrangments should now be made with the French Government by virtue of which we should be assured that francs would be supplied to cover the necessary expenditures of our Government and nationals in France during the continuance of the war, and during the period that may elapse before our troops are repatriated. This opinion is shared by a number of Americans occupying responsible positions in England and France. It goes almost without saying that, if such assurance is asked of the French Government, we must be ready to make corresponding assurance that their needs in the United States will similarly be covered by advances of dollars.

The arrangement would, in fact, amount to nothing more than the continuance of the present month-to-month practice. But, if definitely agreed to now for the longer period, it would have the advantage of relieving the situation from embarrassment due to the recurring uncertainty that might otherwise arise during the war, and more particularly from the grave difficulty that will arise at the termination of hostilities out of our need for an immense sum of francs while our troops are being taken back to America.

Several of the most competent American observers here tell me they are impressed with the fact that the attitude of the Allied Governments toward our own military efforts and necessities will become more critical in proportion to the assurance of future victory over our common enemy. A certain fervor of sentiment toward us as saviours of the situation will pass as the situation becomes more surely saved, and we must look forward to a strengthening of a bargaining spirit, not only with respect to our needs of materials and currencies *during the war*, but particularly with respect to the after-the-war period.

The statement just made may sound somewhat unsympathetic, but, in my own conception, it is not at all so. It is a mere recognition of the usual play of human interest that must be counted upon in conditions now confronting us.

A full realization of the magnitude of our post-war expenses in France has been possible only since a comparatively recent date, when the approximate number of troops to be transported to France has been fixed.

I am still without any figures from the A. E. F. as to their probable expenditures in France for periods longer than one or two months in advance. The Red Cross report that their expenditures will approximate 20,000,000 francs per month. Corresponding information from other American organizations is being sought, and also some estimate of the expenditures of individual Americans in France.

Mr. Stettinius, whom I recently consulted on this subject, feels that, while the responsible officers in the Army will be urged to further effort in the matter of estimates of future expenditures, any figures obtained will be only rough approximations. He particularly emphasized the fact that, at the close of the war, large amounts will probably still be in suspense, based upon claims made by the French Government and not at that time accepted by the A. E. F.

I am informed by Colonel Cutcheon that, as a consequence of the efforts which we have been making to clarify the situation, the French Government is undertaking to present, on the 25th of October, a statement setting forth the nature of all claims which it expects to bring against us, with as much of precise valuation as conditions now permit.

I have recently consulted Lord Gainford, who has long represented the British Government in the matter of receiving and paying claims from French citizens. He informs me that the position of the British Government is substantially this: Through military commissions they make final determination as to the proper amount to be paid to a French citizen for the occupation of his land or buildings, or damage to his property. The French Government has a right to complete knowledge on the subject, and, if they are in any case dissatisfied, can make diplomatic representations in defense of their views of their citizens' interests. Thus far, however, there has been practically no dispute concerning final settlements made by the British Government.

Contrary to the widely prevalent rumor as to payment of rental for trenches, Lord Gainford tells me that no such charge has been made in the actual fighting zone. His Government has paid rental for trenches constructed several years ago approximately twenty miles in the rear of the fighting zone. These were likened in principle to training camps, and compensation has been made to the propriators of the land across which these trenches were dug.

The general line of demarcation in respect to damages to, or occupation of, private property may be thus stated: That all such damage or occupation which is effected in the rear, and which does not result from "faits de guerre", is to be paid by the Government whose troops make such damage or have such occupation. Obviously, there is a twilight zone of doubt between these two, and there have been difficult questions at times as to whether the occupation of, or damage to, property resulted from a "fait de guerre" or from an "operation in the rear."

An illustration of the rather conventional rules which have been adopted in this respect, is found in the statement that lands occupied for the construction of standard gauge railways, which are normally in rear of the fighting zone, are made the subject of a rental paid to the owners. On the other hand, lands over which the light railways have been built, closely in rear of the fighting forces, have not been made the subject of such rental.

There remains, however, hanging over the whole situation the fact that some time ago the French Parliament passed a statute under which its citizens are given the right to claim against the Government for damages due to all "faits de guerre." It has seemed to the French Government that it would be wholly unjust to leave certain provinces in the direct distress, without compensation, due to "faits de guerre", while all other portions of the country would be untouched by such calamity

Obviously, if an indemnity can be collected from the enemy sufficient to pay these damages, no serious question will arise between France and her associated belligerents. On the other hand, if such indemnity is not collected, I think we may expect that the French Government will present, as a matter of moral right, the claim that a portion of this great damage should be paid by their associates in the war.

Having this possibility in view, the British Government is endeavoring to keep a record of damages which have resulted from military operations within the zone of war. The situation is, of course, extremely complex, as, in many instances, a particular French town may have suffered in part from British, French, German, and American acts of war, in which case the separation of responsibilities as between the associated Governments would be a subject of extremest difficulty.

No claim has been made by the French Government against the British Government in respect to this very important matter. The British Government is taking no steps to bring the question to issue, whatever may be the inner thought of members of that Government as to the essential fairness of any claim that the French Government may eventually make.

The sum that may be involved is, of course, very great, but just now defies any effort to express it in figures, even with the roughest approximation.

I understand that our own Army authorities are cooperating with the British from day to day in fixing the payments due to French citizens for occupation or damage in the rear, and both are intent upon clearing up all these individual claims as rapidly as possible, so that, at the close of the war, there will be but a small heritage, if any, of disputes.

In making the estimates which appear upon the appended sheet, the following assumptions have been made:

(1) That the average number of troops in France for the period from September 1st, 1918, to June 1st, 1919, will be 2,500,000.

(2) That thereafter, until removal of troops begins, the number will be 4,000,000.

(3) That there may be a six months, period of cessation of hostilities, during which no troops can be removed.

(4) That, if the troop removal begins as early as June 1919 it will require a year and a half to complete the work, whereas, if it does not begin until a year later, the removal can be effected in one year. (This is due to state of our shipbuilding program at the dates of beginning removal.)

(5) That the average payroll in France (including officers and men) is $30 per month.

(6) That during any period of active military operation, other expenditures than payroll will be equal to the payroll.

(7) That during the period of cessation of hostilities, these "other expenditures" will be fifty percent of payroll.

(8) That during the period of troop removal, other expenditures will be twenty-five percent of the payroll.

As to the expenditures of France in the United States during the continuance of war, I believe we may safely be guided by the experience of the past. From $100,000,000 to $120,000,000 a month seems about all that they can obtain from us and make use of in France. This amount we should have available for the purchase of francs. Insofar as we need more francs than would be thus supplied, we may look to the following headings:

(a) Cancelation of the existing French debt of $2,000,000,000.

(b) Transfer to the French Government of British or Italian obligations now held by us.

(c) Dollars that might be supplied to the British Government covering French purchases in the British Empire, which are now covered by loans from Great Britain to France.

(d) Obligations of the United States given to France.

As to (a), the present contention of the French Government is that the portion of their indebtedness to us which was created before September 24, 1917, cannot be counted as subject to cancellation by future dealings between the two Governments. The basis for this claim is familiar to you. They also claim (without such justification) that later obligations were given with the general understanding that they were to be of some years maturity. On the other hand, they have stated a desire to cancel existing obligations as far as consistent with their banking situation and their need for after-the-war credits. This remark applies to any French obligations—whether those or ginating before September 24th or not.

It may seem an objectionable sort of camouflage—that, of two parties, each should hold obligations of the other equal in amount and maturity. Yet this sort of reciprocal credit arrangement is useful in certain banking transactions. It would have, in the opinion of the French, a marked advantage, in that their public would take great satisfaction in the appearance of American obligations among the securities held by the Bank of France.

I think, however, the matter may not be one of great seriousness, if we take the subject in hand at once, because we may very justly state that, if the war should end with an indebtedness running from the United States to France, it would have to be carried on as good terms as those which would apply to French indebtedness carried by us. Even, therefore, if the obligations remained outstanding each to the other, they would be practically an offset, and would not change the essential relations of the two parties as compared with the case in which bonds would be presumed to be canceled during the progress of the war.

As to (b) while discussing with Mr. Tardieu the question of strengthening the Bank of France situation, I suggested the possibility of our using such British obligations if, in any case, we were willing to meet the views that were then being urged by the British Government. Both Mr. Klotz and Mr. Tardieu have accepted this idea in principle. It has not been discussed with the British Government. To make it effective, that Government would, of course, have to be consulted particularly as determination of the specific maturities and other characteristics of their obligations would have to be made. It is not likely that there will be any opposition on the part of the British Government to such use by us of their obligations. They are now heavy creditors of the French Government, and are likely to remain so throughout the war, as their expenditures in France are not as heavy as ours—amounting to about 150,000,000 francs per month.

As to (c), probably this method of obtaining francs may be put into operation at any time that we so desire. It would presumably entirely satisfy the British Government, which has long been urging that we should take over the expenditures of France in the British Empire. It is not certain, though probable, that the French Government would be equally satisfied with such an arrangement. The amount of French net borrowing from Great Britain is now approximately $40,000,000 a month. If we take it over, and if, at the same time, we are taking more francs than can be paid for by our present dollar advances, plus this sum, the French cease to be borrowers, on account current, and become lenders. Thus far they have indicated strong preference for remaining in the former role—at least toward us. Hence, an objection on their part to the operation of (c) may possibly be presented.

With respect to (d), (obligations of the United States), whatever may be the amount of such obligations, whether represented by book credits or formal bonds, they may be viewed as falling into two categories:

(1) Those containing conditions requiring the proceeds of the credit to be used in a specified period after the war for purchase of materials in the United States. The obtainment of such credits is now the particular object of French negotiation. In a previous communication, I have indicated my belief that we should carefully study the amount of such credits which may thus control the outflow of our raw materials, and that a limit should be fixed in this respect, independently of the debit figures which may run against us as a result of our total transactions with France.

(2) Those containing only the usual provisions for gold payment. This would, of course, represent the residual amount, if any, due by us to France after all other forms of compensation for francs had been exhausted.

As to the relative proportions in which the various sources, (a), (b), (c), (d), for purchasing francs would be used, I shall not endeavor now to make specific suggestions, but shall do so in a later letter.

An inspection of the appended table shows figures so large that we must recognize as reasonable the concern of the French Treasury with respect to the methods to be employed in furnishing the francs in question.

The present total output of that Treasury, covering French expenditures and advances to Great Britain and ourselves, is approximately 4,000,000,000 francs per month. Our requirements will soon increase this amount by 500,000,000 francs or more.

Obviously, if our expenditures in France were followed very promptly by a return of these francs to the French Treasury, or to the Bank of France, there would be no serious question of currency expansion. It must, however, be recognized that, generally speaking, an increase in the turn-over of business in any country requires in and of itself a certain increase in circulation, this quite independently of the fact that, in the case under discussion, francs for our purposes are presumed to reach us through the French Treasury. As to how rapidly the French Treasury will effect loans from its public in order to obtain the francs required for its other expenditures and for our purposes, we are not in position to do anything more than perhaps now and then make a friendly suggestion. We must be prepared to consider with them such difficulties as may actually arise in respect to their operations as a Treasury, and in respect to the issue of additional bank notes, if required.

A first approximation as to what would be just with respect to the expansion in the Bank of France note issue may be had from the following considerations:

(1) That we should establish the actual net demand upon the French Treasury produced by our expenditures, as distinguished from the gross demand. I have already pointed out to the French officials that, through the resale of cotton, cereals, etc., and through the advances by us of moneys required for their neutral expenditures, we have in the past been the means indirectly of putting into the French Treasury the amount of 4,300,000 francs. This process is continuous. Admitting, however, that there is a net demand by us for francs, and that the French financing system will be such as to require all or a part of this to be represented by increased issues of bank notes, we may then propose to give them our own obligations, or British obligations, to an amount approximately equal to the cover which their notes had, say on the 1st of May of this year, when our demand for francs became marked. On the ratio of cover thus provided by American or British obligations might be taken as some safe ratio which, in the judgment of all concerned, would permanently secure the Bank of France issues against public alarm. Doubtless in our own case we should not be satisfied with less than twenty-five percent of gold cover, or cover equivalent to gold. Obviously, even taken into account the very large figures of net debt which might run in favor of France from us at the close of two years more of war, we should have in British obligations alone far more than would be necessary to meet merely this question of cover for any possible increase in the Bank of France note issues.

Since the French purchases in the United States of materials resold to their public will not increase, while, on the other hand, our gross demand for francs will very largely increase, it is apparent that our actual net demand upon the French Treasury for francs will be constantly augmented. It is probable that the success of the loan which the French Government is about to float will indicate, for the time being at least, how far the French Treasury will be able to supply francs for all purposes, without increasing the note issues of the Bank of France. In the present state of uncertainty, we could only deal with this subject on some such general principles, as are above stated, without knowing what the results, in precise figures, would be at any given time.

A résumé of the principles that may be adopted in dealing now with the French Treasury may be thus stated:

(1) A reciprocal engagement between that Treasury and ours that each shall furnish to the other the moneys required for war expenditures (including removal of American troops) in the territory of the other. The term "war-expenditures" to be understood as covering all governmental and certain private needs, subject to definition.

(2) The United States Treasury also to furnish against francs dollars for French expenditures in the British Empire and in neutral countries, if this procedure be agreed upon.

(3) As and when our current expenditures exceed in francs the French expenditures in dollars (determined by (1) and (2), surplus shall be applied (a) to the cancellation of existing French obligations; (b) possibly to the purchase of American obligations (or credits) for transfer to the Bank of France, according to agreed principles relating to the net increase in note issue traceable to our net demands; (c) to the acquirement of additional United States credits covering post-war purchases by France in the United States, over a period of say three years; (d) to the purchase of long term obligations of the United States, not specially conditioned as to expenditure in the United States. The ratios, absolute amounts, and priorities of these several applications of the supposed surplus must be the subject of negotiation.

(4) British or Italian obligations to be substituted for United States obligations in settlements requiring payment by United States, as may be agreed upon.

(5) Any net debt of the United States to France resulting from the war operations in question, and in excess of special three-year credits above mentioned, to be represented by our long-term obligations.

(6) Correspondingly any debt of France to the United States to be represented by French long-term obligations.

I await your instructions as to whether negotiations along the lines indicated herein—or others—shall be undertaken by me. If this is desired by you, it is my judgment that free discussion should be permitted, with the distinct understanding, stated in my no. — that no expression of opinion on my part is to be taken as in any way committing you. I believe in this way the real views of the French Finance Minister can be best obtained, and be made known to you, who would, from time to time, make such determinations as you see fit. If you completely reject any views expressed by me, I alone would seem to be embarrassed, but shall not so regard my situation.

Respectfully,

[s.] OSCAR T. CROSBY,
Special U. S. Commissioner of Finance in Europe.

NOTES ON ASSUMPTIONS MADE IN TABLE OF EXPENDITURES, A. E. F.

Other expenditures, as for transportation, rental of buildings and land, and purchase of all manner of supplies can be approximated now only through the figures which have been submitted by Lieut. Colonel Cutcheon, and which were reported some time ago to you, together with very recent information given to me by Mr. Summers as to the new programs for the supply of ordnance to our Army from French factories.

Whether the payroll must remain at the present figures it is difficult to state without further information from the A. E. F. authorities. It would seem, particularly after the close of hostilities, that the actual expenditures of our men might be reduced to a smaller figure than that which is thought desirable now while they are under the strain of military activity.

No allowance is made for any such reduction in the figures that are now made up in order to give us a rough idea of the probable expenditures of our Government in France until our troops are withdrawn.

The estimated periods for removal of troops under different conditions as to our shipping program result from conversations had with General Niles, who represents the War Department in the matter of ocean transport.

EXHIBIT NO. 2996

10 GROSVENOR GARDENS,
LONDON, ENGLAND, *August 23, 1918.*

Mr. B. M. BARUCH,
Chairman, War Industries Board,
Washington, D. C.

MY DEAR CHIEF: You realize in connection with my remarks in my other letter the possible financial developments. The one solution to this is to have America develop its facilities for the manufacture of artillery, guns, and ammunition. It is ridiculous for our Nation with its facilities to be in a position of not having shipped a day's supply of ammunition after we have been at war for seventeen months, and if the Ordnance Department cannot come through and produce results, the simple answer it "put someone in charge who can do it." It would be a calamity to put our country in the financial situation that confronts us simply through the military dogmas that have controlled the Ordnance Department since the start of the war. If our Ordnance Department cannot develop a detonator that is satisfactory, they must adopt either the French or British standard, which has been satisfactory for the past four years. They have constantly made improvements it is true, but they have started in with what they had and did not hold up the program while making them. This applies to shells and explosives. You know how bitterly I feel on this subject, because I was instrumental in developing the detonator for the British service, and I am not tolerant of delays in the Ordnance Department as regards gas shells and high explosives. If the American nation can equip its own forces, it will be a tremendous help financially. If the military authorities insist that speed is necessary and another division of the military Department cannot produce speed, something must be done.

I am convinced that the decision of General Pershing will be that 50% of all shells will be loaded with gas. There are two or three new gases that are coming out in the near future and it is to be hoped that the director of gas warfare will put more energetic efforts into their production than was the case in mustard gas.

You realize we now have on order in America about 30,000,000 75 m. m. shells. These are in all stages of process, from shells complete, with the exception of the detonator, to the steel bars. We also have some 12,000,000 155 m. m. The amount of shells we have on order in America practically equals the total reserve of the French Army, and up to the present time our program for guns does not amount to more than one half of the total guns of the French Army. Upon my return to Paris I will be able to get all of this information in detial and will try to submit you a brief analysis of it.

Very sincerely yours,

LILS:M. (In pencil) L. L. SUMMERS.

EXHIBIT No. 2997

PARIS, *September 13, 1918.*

Mr. B. M. BARUCH,
Chairman, War Industries Board,
Washington, D. C.

DEAR MR. BARUCH: After Anderson left I had a number of meetings with various British officials in connection with the wool, hide and leather, and jute situations. All of these are more or less involved, as you know, and the responsible British officials are trying to avoid an issue with the trade committees which have been dominant in these matters. There is a great deal of opposition to forming a hide and leather executive to meet in London, and there is also a great deal of opposition to giving the United States Government the same price the British Government pays Australian and New Zealand wool growers. These matters will come up actively when I return to London.

I left London for Paris on September 5th, and since our arrival here have been in consultation with Stettinius, and have had a number of committee meetings on various matters. There are several points at issue. When I arrived I found Stettinius had made up his mind that the Munitions Council was of more importance in connection with the Allied purchasing and the raw materials which the War Industries Board handles. He felt it was not of particular interest to the War Department. There had been developed in the steel meetings in London severe criticism on the part of both the British and the French regarding the amounts of steel America had assigned to its munition program. They called attention to the fact that the shells America was contemplating could not be transported and could not be utilized at the front. In repeating these criticism to Stettinius we showed the amount of steel the War Department was requesting and the number of shells it involved, and he realized there was considerable discrepancy. As we had your cablegram stating Stettinius had the figures on the amount of steel required by the Army we called on him with this information, and he seemed to take exception to it, as he felt the Washington authorities were reviewing all the programs, and they had never furnished him with any data in regard to tanks, aeroplanes, and similar matters. He therefore sent a cablegram to them, and I cabled you that I felt the War Department were disinclined to submit their programs for criticism. After two of three days of meeting together Stettinius stated the War Department would, of course, maintain their representation on the Munitions Council and co-operate in every way.

Secretary Baker arrived in town two or three days ago. I called and left my card, but he was out, and had not made an appointment.

The reason we are so actively pressing the War Department on their figures is, first: if you deprive American industries of steel to meet an exaggerated program, and later the War Department curtail on their program, or produce a large amount of unfinished material that cannot be used industrially, everybody concerned will be very gravely criticised, and you know there is a great tendency to criticise this at the present time, the automobile people being only one of the many industries which have been gravely affected. Second, if the program as outlined by the War Department is persisted in it will mean the construction of additional powder plants and additional explosive plants, and these must all be equipped with nitrogen fixation plants in view of the nitrate situation. This will involve a colossal sum of money, which will be an absolute waste, and will deprive essential industries, and other war industries of a large amount of material, and use large forces of men who should be available for other purposes. There is no intention on our part, of course, of assuming any right to influence the military program, but the data on which all of these results are calculated is so meager, and the assumptions are so extreme, that they are subject to very grave criticism, and I personally feel that the War Industries Board should be definitely on record as having called attention to the grave responsibility placed on the War Department if they proceed on a fictitious program that has been inadequately considered in view of all conditions.

From a military standpoint, the criticism comes entirely from the military experts of England, France, and Italy. The French and British technical men are particularly outspoken in this respect. It seems to me that the one great advantage of the Munitions Council will be that disinterested men of wide experience will have a chance to analyze the figures of each Government and call attention to any tendencies to over-estimate. The American estimates are most glaring in their inconsistency. I am putting this industrial situation up to the War Department very strongly, and, of course, if in the face of this they prefer to stand upon their estimates, we, at least, will have a very clear slate when the hurricane breaks. The arguments raised have been forcible enough to make Stettinius hesitate about going on with their program until it has been more adequately scanned.

In general the American program calls for an expenditure of money continuously throughout the year on a basis of about 50% greater than the maximum campaign of six or seven weeks of either the French or British Armies. This, together with their tendency to create a large reserve at their base depots and at their embarkation ports is making an unprecedented demand on our facilities.

A very important situation has developed in connection with the Allied purchasing, and I feel you should give this matter more of your personal attention. Several months ago England, in various negotiations with Italy, agreed among other things to furnish 100,000 tons of steel and 56,000 tons of pig iron. These negotiations were made between Italy and England, America not being a party to them or having knowledge of them. It is a little bit indefinite just what they involve except one of the factors was that England was to furnish this 100,000 tons of steel and 56,000 tons of pig iron. We have no knowledge, of course, whether this steel or pig iron is for military necessities. Only 28,000 tons of the steel was shell steel. When it came time to make delivery of the iron, the British Treasury would not allow it to leave the country unless Italy provided dollars credit in New York for the iron. Crosby, naturally, objected to dollars credit though there had been many cases where it had previously been allowed. When it came to a question of permitting Italy to repay England with pig iron purchased in the United States, then it became a replacement, but as it is after all a replacement in dollars of American credit, it is practically the same thing except that an open credit of dollars might permit England to use the money in any way she saw fit, that is, to purchase materials which would not be war necessities and, therefore, would not come properly under the Treasury appropriation. I have discovered in this connection, that there are some contracts and arrangements between France and England which contemplate this transfer of credit, and you appreciate it would only be a slight step to have each nation exchange these credits with the other and there would be practically no restriction in regard to their purchases. In other words, they could draw on the U. S. Treasury for classes of purchases which would not be essential for war purposes and the materials could be used industrially. There is much scattered evidence to show that materials we are sending over find their way into industrial uses, and we can only present a complete picture by examining the production of each country and analysing the uses to which this production has been allocated. This, of course, involves extensive program work, but it is quite possible.

In connection with some orders for Italy to be placed by the Aircraft Production Board, the question of the raw materials to be sent to Italy comes up, and McFadden's investigations in Italy had indicated that materials were being used industrially. For this reason I understand the Signal Corps are arranging in their contract with F. I. A. T. that American officers will have charge of the distribution of raw materials that are to be furnished for the manufacture of trucks and aeroplane motors.

We have followed up your cablegram regarding replacement orders and everybody over here agrees that the whole system of replacement promises was wrong and should never have been started. Col. Cutcheon has been named by General Pershing to work with Stettinius in getting this matter straightened up. Cutcheon is a very well-known New York lawyer and a very able man. I have had a number of conferences with him and Crosby, and Cutcheon is taking the position that both France and England are being supplied with materials by the U. S. far in excess of any materials they have furnished the Expeditionary Forces and that therefore they have been repaid in kind by these shipments. As the American Expeditionary Forces pay for their purchases in cash there is no financial question involved, and as the American Government has loaned money for the purchase of the materials, Cutcheon is taking the position they have replaced this. He is asking us to assist him in maintaining his position and it seems rational, and the only way in which we can terminate these ridiculous promises of returning certain things at certain times, which means the American Expeditionary Forces have usurped priority on all materials without regard to possible production. Maintaining this position taken by Cutcheon will result in cancelation of all replacement orders by the acknowledgment that materials of equal amount have been received in replacement.

There are so many of these questions arising continuously, it seems to me certain that you must maintain a permanent representation in London and Paris. As the demands on our raw materials increase they will become more and more important, and if you decide to take a stand supporting Crosby in the idea that the Allied purchases must be for specific purposes and for those purposes only you will have to assist the Treasury in an organization that will permit these requirements to be scanned. I think it is ridiculous for you to attempt to allocate American production on requests made by the various military missions to America, as you have no assurance that the materials so allocated are to be used for military purposes, which is the basis of the Treasury appropriation, and you are simply taking the statement of these military missions and they in turn receive their requests from various bodies on this side actuated by political motives as much as military motives. You can definitely make up your mind that our Allies have been so long in the war that they are quite willing to have America foot all bills regardless of the purpose to which the money is to be devoted. You know this has been so during the past year and I want to definitely warn you that this tendency is bound to incresae, and that owing to changed war conditions there is a spirit rampant of getting ready for trade after the war and no opportunity is neglected to improve industrial position.

There is a very great tendency on the part of both England and France to accumulate a large stock of raw materials and to have them on hand at the end of the war, which will give industry a huge and direct stimulus. The replacement orders of France are a conspicuous example. They will get 10,000 tons of something from us on an Allied purchasing order. They will loan this to General Pershing, receiving payment in dollars, with no restriction as to how those dollars are to be spent, as it is their money. In other words, they have converted American materials, bought with American dollars, into French money to be spent as they see fit. Secondly, after they have received cash for the material they tie a string to it that it is to be replaced in kind on their demand. They will then place an Allied purchasing order for a similar amount of material. There is no question involved as to the extent to which they might do this, as there has been no means of scanning these requests. If they choose to call for a replacement order in addition to their having purchased a similar amount, it gives them twice the material advanced to Pershing. The barbed-wire situation is a recent illustration. They asked you for 20,000 tons of barbed wire a month when they were already receiving 12,000 tons. They put in a very urgent plea and we started investigating what they were doing with barbed wire and where it was. After three weeks of continuous pressure they withdrew their additional demand for barbed wire, stating it had been made in error.

I have no intention of intimating that you should attempt to take the responsibility of determining the requirements of the Allied Governments, but I think in your position as Allied purchaser and representing Mr. McAdoo, he should understand, and you should understand, that there are numerous loopholes of large size which are enabling the Allies to convert into cash the materials supplied by us, and utilize the cash in a way not contemplated in the appropriation, and I think the whole matter will be put on a better business basis if it is recognized that by perfecting an organization of these committees all requirements will be scanned not only by us but by all the Allies, and we will be able to stop the intertrading on American money and will be able to more effectively meet the situation.

I think if you were to examine the work we have done in the past six weeks you would realize that we have been of very distinct benefit to our own industrial situation and to the Allied purchasing. I hope before you receive this letter that you will have talked with Anderson and will have decided what you want to do in regard to permanent organizations. We have rented a house in London for three months and will rent an apartment in Paris. The French Government have placed offices at our disposal in Paris.

Very sincerely yours,

LELAND L. SUMMERS.

EXHIBIT No. 2998

U. S. WAR INDUSTRIES BOARD MISSION,
136 Avenue des Champs-Elysees, Paris, September 21, 1916.

Mr. B. M. BARUCH,
Chairman, War Industries Board, Washington, D. C.

DEAR MR. BARUCH: I had a number of meetings in London with British officials on wool, hides, and leather and the jute situation All of these materials are more or less involved in trade committees and we will have quite a job to have them taken in hand. There is a great deal of opposition to forming a hide and leather executive as I have asked that this be formed in Washington. The members of the committee in London are opposed to this and it will have to be settled by the Cabinet.

Since my arrival in Paris we have had frequent consultations with Stettinius, and, as I cabled you when I first arrived, I felt Stettinius had lost interest in the Allied Munitions Council since he stated he felt it would be of more importance to the Allied Purchasing and the War Industries Board than to the War Department. After the arrival of Secretary Baker, Stettinius evidently got his affairs straightened out so that he has been given more authority and now has an opportunity to go into details of the military situation so that there is a possibility of reviewing their programs. As soon as this took place Mackall and I started pounding on the steel and shell situation. Mackall has been able, as chairman of the steel committee, to get a lot of detailed data together, and we practically challenged the War Department's figures. Last night I dined with Stettinius and he had there General Fox Connor, General Wheeler, General Rockenbach, Col. Logan, Col. Burney, and Major Kimball. We spent four hours on the general industrial situation, and I explained what it meant to embark upon an elaborate program of manufacture at the expense of our industries if there was any possibility of the figures being wrong, and suggested the data that was available indicated conclusively that the figures must be wrong and that this should receive very serious consideration. When I was over here a month ago I visited Chaumont and talked with General McAndrews, Pershing's chief of staff, about their programs, calling attention to their lack of information on their gas program, suggesting careful consideration should be given to all of their programs that were taxing American industry. This morning Mackall had an extended session with the chaser officers at Stettinius' office and it led to their practically admitting that there was an error in their figures and that a very heavy reduction in their requirements could be made. You will receive details of this through the War Department, and I have cabled you today that we had effected this result. I think this is one of the best pieces of work we have done, as it will be of great benefit to the steel situation and will be of tremendous benefit to explosives and propellants. And further explosives or powder plants would have required nitrogen fixation plants and this would all have been a tremendous waste of money.

Stettinius has been cooperating with us in every way and has furnished all information we have asked for, so that apparently things are moving along better. I have called your attention repeatedly to the Allied purchasing situation, and I am pleased to see the cables that Crosby exchanged with McAdoo in regard to the change in this purchasing. Of course, I feel flattered that Crosby wants me to serve on the Allied Council, and as this will not involve any more work than I am doing and will give a more official capacity to my work, I think it would be a good thing to put into effect. We have unearthed a large number of transactions which are open to very serious question and which I have vigorously protested. In connection with the Italian requirements for pig iron and steel a peculiar situation exists. Pershing purchased some motor trucks in Italy and after signing contracts could not get deliveries and was finally advised that they could not make deliveries on account of these trucks going to England and France. In other words, the British had taken these facilities for their own use, using as a wedge the supply of raw materials. Later they had made demands on us for 56,000 tons of pig iron and 100,000 tons of steel. We have accepted the 56,000 tons of pig iron to be deducted from the allocation of 180,000 tons. We have not approved the 100,000 tons of steel as the British have not produced any detailed statement of their output and its allocation. To sum these transactions up, you will appreciate that England has been able to operate the Italian factories and practically allocate their output through furnishing them raw materials and later has demanded that we replace these raw materials. In other words, she is distributing American raw materials to suit her own program of priority. Of course, it is needless to say I am taking a vigorous stand against this, and Mr. Churchill told me the other day that after seeing one of my cables to Crosby he felt I was peeved. I told him my cable did not show really how much I was peeved, and that I did not see how England and Italy could enter into a contract and expect the U. S. to hold the bag. This whole thing will be opened up in the future and we are striving to drive a wedge into the Italians so Pershing can get his share of motor trucks and aeroplanes from Italian factories. In view of our financial support to Italy it is ridiculous that her factories should be closed to us.

Another feature of the Allied purchasing which I do not like is the ease with which the various Allies have secured allocation of materials without presenting any evidence as to their essential character. Mackall and I visited Creusote Works this week and we came to the conclusion that about 85% of their steel output was being fabricated into commercial materials. Whether these materials were being used for military purposes or not we did not have an opportunity to investigate, though they claimed it was all for war purposes. You appreciate that by manufacturing this lower grade of steel and turning over to us the higher grades of steel they are not acting equitably.

They are endeavoring to form in Paris a new bureau to be called the "Bureau of Reciprocal Supply", which is supposed to do away with the questions of replacement. This bureau presented us with the attached form of organization which they contemplated, and we were not willing to prove anything but subject A which was a matter that concerned the War Department directly and entirely within their jurisdiction. We felt that to organize under subjects B and C was inviting trouble and in the form it is presented declined to approve it. There is a phase to this Bureau of Reciprocal Supply that should be carefully investigated. When Pershing buys material in France he has been paying cash for it. The French then place a purchasing order through the Allied Purchasing Commission. The result is that they have converted American material into money and have borrowed an equal amount in the form of raw material so they double up on all of the supplies they furnish to Pershing, converting one-half of it into cash. This is American money to be expended as they see fit and without any restrictions, unquestionably, in addition, deriving a liberal profit from fabrication. I imagine Mr. Crosby will succeed in the effort to insist on offsetting credits which will eliminate the cash transaction. It is of fundamental importance that this offsetting of credits be inaugurated as early as possible. I think some effort has been made toward this and as francs went down five points within the last two days where they had been constantly rising for the last five weeks.

The tendency of Great Britain and France to create reserve stocks of materials to be available at the close of the war is very marked.

A number of requests have been made by both Great Britain and France to have men at the front relieved for home industries, Great Britain asking for the return of coal and metal miners and France asking for the return of munition workers. I do not know to what extent this movement has taken place, but of course if they are allowed to do this to any extent it simply means we are draining American industries while France and England are rejuvenating theirs, and I presume General March's strong statement made before Congress at the time the new man-power bill was before that body is not idle talk but was backed up by some understanding with the French and British Governments that they would maintain their full man power and not attempt to diminish it in view of the great increase in our Army.

Up to this time we have had continual trouble getting from the British a definite statement of their steel production and its allocation. We have made repeated requests, and excuse after excuse has been offered. We will continue to put pressure on this until we get it, and if we don't get it it may be necessary to ask you to withhold British allocations until the details of their steel situation are furnished and we are assured that their steel supply is going into proper channels. Their furnishing of steel to the Italians and later asking our replacement made me suspicious of some of their transactions, and we should be sure that our steel sent to Great Britain is urgently needed for military purposes. If they furnish us a complete statement we will be able to check this, particularly as Mackall and I will visit some of the larger steel works in Great Britain.

Owing to the Munitions Council being advanced in its meeting date I was unable to leave for Italy, and I am returning to England tonight to have some meetings on hides and leather and the wool situation. I will return to Paris the latter part of next week in time for the Munitions Council meeting and I expect to go on to Italy immediately after the Council meeting.

Very sincerely yours,

(In pencil) LELAND SUMMERS.

JEM.

EXHIBIT NO. 2999

MR. RATHBONE (handwritten).

23 WALL STREET, NEW YORK, *2nd April, 1918.*

HON. R. C. LEFFINGWELL,
Treasury Department, Washington, D. C.

DEAR MR. LEFFINGWELL: I have pleasure in enclosing for the information of the United States Treasury a copy of a letter dated 26th March addressed by Sir Hardman Lever to Mr. Tardieu in regard to the British claim for dollar reimbursement from the French Government.

Yours sincerely,

[S] BASIL P. BLACKETT.

PLAZA HOTEL,
New York, 26th March, 1918.

The HIGH COMMISSIONER OF THE FRENCH REPUBLIC,
1654 Columbia Road NW., Washington, D. C.

MY DEAR MONSIEUR TARDIEU: Referring to your letter of 12th March and to my letter to M. Simon of 4th March, I have the honour to say that I have now received from London a further statement in regard to the British claim for dollar reimbursement from the French Government as follows:

Cereals: Jan. & Feb. 1918		$24, 010, 770. 00
Sugar:		
Jan. 1918	$729, 629. 52	
Feb. 1918	768, 572. 01	
		1, 498, 201. 53
Meat:		
Jan. 1918	4, 506, 117. 55	
Feb. 1918	2, 040, 230. 05	
		6, 546, 347. 60
Neutral freights:		
Jan. 1918	3, 168, 413. 32	
Feb. 1918	3, 157, 553. 79	
		6, 325, 967. 11
Norwegian insurance: Dec. 1917 (subsequent figures not yet available)		5, 006, 743. 65
War Office claims for meat supplied at Salonika and Port Said, and benzine supplied in Egypt (period unspecified)		2, 134, 144. 08
Ministry of Shipping claims in respect of disbursements in America (period unspecified)		257, 464. 63
Ministry of Munitions—nitrate of soda (period unspecified)		5, 184, 808. 51
Board of Agriculture—nitrate of soda (period unspecified)		277, 200. 00
Cotton (period unspecified)		4, 765, 000. 00
Dollar value of material in miscellaneous goods exported to France from United Kingdom (period unspecified)		2, 236, 308. 00
Expenditure in respect of Chinese ex enemy vessel (period unspecified, and no further details available)		126, 215. 32
Steel: Oct. 1917–Feb. 1918 (provisional figure)		26, 000, 000. 00
Add: Balance due from last statement		9, 744, 788. 87
Total		94, 113, 959. 30
As against this total there has been received from the French Government during the months of January and February 1918		80, 000, 000. 00
Leaving a balance of		14, 113, 959. 30

I understand that the above figures with the necessary explanations have been communicated to the French representative in London and to the Inter-Allied Council.

Unless I hear from you to the contrary I propose to furnish a copy of this letter to Mr. Leffingwell as usual.

I am, my dear Monsieur Tardieu,

Yours very truly,

(In pencil) HARDMAN LEVER,
Financial Secretary to the Treasury.

EXHIBIT NO. 3000

[Pencilled note: This exhibit is referred to by Mr. Rathbone again during Senator Vandenberg's questioning of Mr. Lamont]

PARIS, *April 12th, 1918.*

(*Ministere des Finances; Direction du Mouvement General des Fonds. No. 3447*)

[Translation]

DEAR MR. CHAIRMAN: Your letter of February 28th forwarded the request to be provided with various information in regard to the transactions of the French Treasury in England extending over the period from January 1st to December 31st, 1917, and during January 1918.

I now beg to enclose three statements showing the receipts and payments of the French Treasury.

With regard to the Banque de France and to its dealings with the Bank of England, the same refer exclusively to payments of supplies from the British Empire. This applies also to nearly all the payments made, at the request of the Bank of France, by the financial agency of the French Government for freights, coal, etc. Since this new rule has been set working, in July last, the following amounts have been paid: £27,128 for chartering Greek vessels and £615,131 for chartering Norwegian vessels.

[S.] L. L. KLOTZ.

MR. OSCAR T. CROSBY,
President of the Inter-Ally Council on War Purchases and Finance, Paris.

Total of balances placed at the disposal of the French Government by the British Treasury

Description	From July 1st to December 31st 1917	January 1918
Reimbursement of advances madein France to the Paymaster General	£19,978,460	£5,157,005
Reimbursement of advances made in France to the British Ministry of Munitions and to the Aviation Dept	2,692,398	844,850
Reimbursement for the railway conveyance of British troops in France	1,741,476	-------------
Countervalue of dollar amount placed at the disposal of the British Treasury[1]	25,020,253	2,098,636
Real loans granted by the British Government	86,548,000	16,387,500
Total	136,580,587	24,487,991

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[1] These dollar payments represent the presumed amount of payments made in the U. S. through the intermediary of the London market. They are of a purely provisional character and any recognized surplus is applied to expenditure directly made in the U. S. by the English departments on behalf of French departments.

It should be observed in connection with the amounts placed at our disposal that:

£8,000,000 loans granted by the English Government, in November and December relate to the settlement of arrears.

£1,463,000 relate to an exceptional payment, in January, for Australian wheat.

£950,000 refer to an advance payment in January on funds at our disposal in February.

Amounts placed at the disposal of the Bank of France

	From July 1st to December 31st 1917	January 1918
	Francs	*Francs*
Payments for freights and coal	25,577,000	4,050,000
For exchange requirements	58.900.000	8,800,000
Totals	84,477,000	12,850,000

Expenditure made by the French Government directly in London through the intermediary of its financial agency

Country	From July 1st to December 31st 1917	January 1918
British Empire	£40,200,000	£10,569,000
U. S. & Canada	2,570,000	135,000
South America	4,000,000	362,000
Other countries	5,330,000	571,000
Totals	52,100,000	11,637,000

EXHIBIT No. 3001

FEDERAL RESERVE BOARD

WASHINGTON

NEW YORK, *February 28, 1919.*

Hon. ALBERT RATHBONE,
Assistant Secretary of the Treasury,
Washington, D. C.

MY DEAR RATHBONE: As requested in your letter of the 25th instant, enclose herewith statement just received from Lazard Freres, giving detail of transactions in sterling for account of the Bank of France.

In every case sterling exchange was purchased from Lazard Freres by the Bank of France for remittance to the London office of Lazard Freres, for account of the Bank of France. Payments were made to Lazard Freres in dollars for each transfer, the amount being 2,000,000 in each case. Lazard Freres, of course, have no means of telling how the Bank of France used these funds, but it unquestionably checked against them to meet requirements for sterling exchange.

Very truly yours,

[s] FRED I. KENT.

FIK/MKS. Enc.

Dec. 6, 1918	£415,000	
“ 6, “	200,000	
“ 9, “	410,000	
“ 9, “	830,000	
“ 9, “	415,000	
“ 11, “	415,000	
“ 12, “	415,000	
“ 14, “	415,000	
“ 23, “	415,000	
“ 23, “	415,000	
“ 24, “	415,000	
“ 31, “	415,000	£5.175*
Jan. 3, 1919	415,000	
“ 6, “	415,000	
“ 7, “	415,000	
“ 9, “	415,000	
“ 13, “	415,000	
“ 14, “	415,000	

Jan. 15, 1919	£415,000	
“ 15, “	415,000	
“ 21, “	415,000	
“ 24, “	415,000	
“ 24, “	415,000	
“ 28, “	415,000	
“ 28, “	415,000	£5.395*
Feb. 3, “	830,000	
“ 5, “	415,000	
“ 6, “	415,000	
“ 6, “	415,000	
“ 7, “	415,000	
“ 10, “	415,000	
“ 13, “	415,000	
“ 17, “	415,000	
“ 17, “	415,000	
		15.135*

*Written in pencil.

EXHIBIT No. 3002

MARCH 3, 1919.

FRED I. KENT, Esquire,
Director, Division of Foreign Exchange, Federal Reserve Board,
15 Wall Street, New York City.

DEAR KENT: I am much obliged for your letter of February 28 received this morning enclosing a list which you received from Lazard Freres giving the detail of their transactions in sterling for account of the Bank of France between December 6, 1918, and February 24, 1919, both dates inclusive. I will be obliged if you can make arrangements so that in case there are any other transactions of this kind you will be promptly advised of the same, and that you will arrange to inform me of any such advices.

Is there any way through your control of foreign exchange operations that you can prevent these transactions? If so, I will be obliged if you will let me know just what steps you would have to take, your judgment as to the advisability of taking the same, and what effect such measures would have on the foreign exchange situation in general.

Very truly yours,

[s.] ALBERT RATHBONE.

EXHIBIT NO. 3003

MARCH 3, 1919.

Mr. JOSEPH SIMON,
The French High Commission, Washington, D. C.

DEAR MR. SIMON: You will recall our recent talks in regard to the transactions of the Bank of France regarding its purchase of sterling in the New York market. I now find that the Bank of France has purchased sterling in this market for remittance to London for account of the Bank of France. Between December 6 and December 31, both dates inclusive, 5,175,000 pounds were so remitted to London, during January 1919, 5,395,000 pounds and during February, up to and including the 24th, 4,565,000 pounds.

In making advances to the French Government for use of the Bank of France, it has been the understanding of this Department that the dollars so obtained were used solely of dollar payments on account of commercial operations in the United States, as set forth in Mr. Tardieu's letter to Mr. Leffingwell of March 26, 1918.

I wish to confirm the statement I made during our talk of last Saturday regarding further advances from the Secretary of the Treasury to your Government to meet its requirements in the United States, viz, that the Treasury cannot continue to make advances to your Government, if as a result, your Government through the medium of the Bank of France or otherwise obtains through its available dollars sterling to meet its requirements in the British Empire. I understand that you are to confer with the representatives of the Bank of France in regard to this matter today or tomorrow and trust that you will make clear the attitude of the United States Treasury in this respect.

I am, dear Mr. Simon,
Very truly yours,

[s.] ALBERT RATHBONE.

EXHIBIT NO. 3004

102.1/1207 a

[Telegram sent]

DEPARTMENT OF STATE,
Washington, September 10, 1918.

(Charge to Treasury Department)

AMEMBASSY,
London:

For Crosby from Rathbone. Treasury 389. During August British sold exchange in New York to something over $46,000,000. They state Chancellor of Exchequer has advised it is necessary to raise rate for supply sterling for governmental purposes to $4.76\frac{9}{16}$ from October 1. Please immediately confer with Chancellor making strongest representations that the Treasury cannot assent to any change of sterling rate in view of the large amounts advanced in the past to maintain rate at $4.76\frac{7}{16}$ and the fact that present sales are the result of removing from exchange market British purchases now paid for direct from our loans. In accord with your 494 regarding French exchange we have every right to have this British matter dealt with as we think correct. We should be in a position to notify War Department and other governmental agencies of rate which will obtain for October not later than Monday next September sixteenth.

[Sgd.] LANSING.
[Sgd.] ALBERT RATHBONE,
Assistant Secretary of the Treasury.

Do not cable.

EXHIBIT No. 3005

102.1/1165.

(*Telegram received from London, dated Sept. 5, 1918. Rec'd. 9:30 p. m.*

SECRETARY OF STATE,
Washington:

1644. September 5, 9 p. m. McAdoo from Crosby. 494. Think that rapidly declining free rate of dollar in Paris should now be made subject of agreement between Governments. Am inquiring as to volume of this budget as shown in French banks. Bank of France has felt unwilling to intervene continuously to support this rate but think we should have some agreement that it should not be left unsupported. A time scale could be agreed upon with understanding that movements should be checked except as in accord with such scale. Pressure upon market should be relieved by having Red Cross, Y. M. C. A., Knights of Columbus, and other similar organizations supplied with francs at agreed Government rates, practically as our Army is supplied. There would always, however, be considerable amounts expended in France by the multitudes of Americans now there. And as we are supplying French Government with goods so largely for private use we have lost the counterbalancing effect those exports to France. We have therefore every rignt to urge such system of intervention and check as we think correct. Please wire general views on the subject so that I may take up at once with French Treasury and possibly Bank of France the necessary steps to be taken in this regard.

J. D. PAGE.

[Pencilled: Duplicate.]

102.1/1165. [Telegram sent]

DEPARTMENT OF STATE,
Washington, September 10, 1918.

(Charge to Treasury Department.)

AMEMBASSY,
London:

For Crosby from Rathbone. Treasury 388. Embassy's 1644, September 5, 9 p. m. Your 494. We entirely agree with views you express regarding French exchange. London and New York rates should be kept at a parity and New York rate should not be advanced to rate which will require United States advances for its maintenance. On balance French sold 34,100,000 francs New York market during August, out of which they paid cotton drafts amounting to 8,000,000 francs. French Government should supply funds not only for Red Cross, Y. M. C. A., Knights of Columbus, and other associations but also for all our governmental departments and agencies in substantially same manner as Army is supplied. Supplementing our 376, week of September 2 closing cable franc rate from 5.46 on Wednesday to 5.48½ Friday. In connection with advance in rate it should be borne in mind that French maturities next April of one hundred million dollars are payable at option of holders both principal and interest in francs at 5.70.

[S.] LANSING.
[S.] ALBERT RATHBONE,
Assistant Secretary of the Treasury.

EXHIBIT No. 3006

Blue

LONDON, *Dated September 8, 1918,*
[Recd. 8, 2.11 p.m.]

SECRETARY OF STATE,
Washington, D. C.:

1713. September 8, 11 a.m. McAdoo from Crosby. 503. Replying to your number 376. Am cabling to De Lachaume, Paris, today as follows: "Replying your telephonic conversation with Loree. Present open-market rate for francs, due to the fact that the American Government has for many months supplied dollars for purchase of materials not only for strictly government uses but also vast sums covering goods required for private use, no corresponding action has been taken by French Government, consequently American private purchases in France are not offset by French private purchases in the United States. Counting upon the figures given me by you before I left Paris as those which the bank of France would protect, we have taken no steps to supply dollars in this free market. In view of all these facts, and further fact that the official rate has been long maintained on the basis of credits established by the United States Government in favor of France for all purposes, it does not appear equitable that there should be so rapid a change in the official rate, praticularly if there be no understanding that the outside rate shall be protected. Please present this matter to Bank of France and if you think best to Minister of Finance, also as one which we view with concern and advise as early as possible modification; first, as to official rate which it is proposed by Minister of Finance to hold with respect to Governmental relations; and second, what steps Bank of France is prepared to take with regard to the open-market rate." Will advise you further on receiving his reply.

PAGE.

RAR.

EXHIBIT No. 3007

(Via French Commission to de La Chaume, 2 rue St. Florentin, Paris; from Davis. September 12, 1918. No. 190.)

Referring our conversation relative to rate for francs, have been unable discuss matter fully with Crosby, but after further consideration think rate for francs supplied by French Government for American Government expenditures should not be based on present so-called open-market rate, which is one-sided and abnormal. When the dollars required to cover purchases for French-American nationals were included in advances made by American Government to French Government, the natural source of supply of francs for American private requirements was withdrawn. Present market therefore only reflects American private demand for francs without natural offset of private French demand for dollars. If francs required for American nationals were likewise included under present arrangements it would be impossible maintain present rate. American Treasury does not desire obtain francs at an unfair rate, but it seems illogical to base rate for francs supplies to American Government on present limited market rate, but for many reasons it is most important for us not to have such a quick radical change in the rate. Am writing more fully, but as it is necessary fix rate immediately for Army expenditures in October, suggest that rate be fixed at 5.60 and that market rate be maintained at present level at least until all parties concerned can discuss matter more fully. Please consult French Treasury and wire me.

EXHIBIT No. 3008

SEPTEMBER 13, 1918.

MY DEAR CAPTAIN: Although I have not had an opportunity to discuss fully with Mr. Crosby the question which has arisen in respect to the rate for francs, I wired you yesterday because, after thinking the matter over further, I have changed my opinion somewhat and at least to the extent that it would be most inadvisable for several reasons to make such a quick and radical change in the rate for francs to be supplied for American Army expenditures. As Washington should know by the 15th of the month what the rate is going to be for the subsequent month, and as it will be impossible for all parties concerned to have an opportunity to discuss the matter before that time, I therefore strongly urge and recommend that this rate be fixed at not lower than 5.60 for October and that the present so-called open market rate be maintined at its present level at approximately between 5.48 and 5.50. From the limited discussions I have had with Mr. Crosby, however, I am satisfied that he views with very much concern such a radical change in the rate without prior full consideration and discussion.

Upon our entrance into the war, the United States Treasury accepted the rate for francs and sterling which had been fixed and agreed upon by the French and British Governments, and we have advanced funds to the two respective Governments to maintain that rate at a time when it would have been most difficult to do so without such support, and, in addition to this, the American Treasury has included in its advances to the French Government dollars required to cover practically all of French private purchases. When the dollars required to cover purchases for French nationals were included in advances made by the American Government to the French Government, the national source of supply of francs to cover the requirements of American nationals was eliminated. As a result, the present market rate only reflects the American private demand for francs for which the natural market demand for dollars to offset same no longer exists. It would therefore be difficult for us to justify our support of francs and sterling and the inclusion of French private dollar purchases in advances to the French Government if this is going to result in fixing an abnormal rate for francs and a corresponding increase in the cost of our Army expenditures in France by basing the rate for francs supplied to our Government on the rate fixed by a one-sided market caused by American private demand for francs without the corresponding offset. I am sure you will agree with me that if the American private requirements for francs had been provided for in the same way as the French private requirements for dollars, the market rate for francs would still no doubt be around 5.70. It is, of course, a source of gratification to us to see any reasonable improvement in the rate of francs, but if we are to establish the principle that the rate for 500,000,000 francs which may be required by our Army monthly is to be based on the rate fixed by a one-sided demand for say 50,000,000 francs to cover our private requirements, it would be necessary for us to take measures to supply this private demand. Otherwise, the market rate for francs could be put on almost any basis. However, as the market rate has now been raised, it might have a bad effect to lower it, and I hope it will not be necessary; but, under the circumstances, it seems most advisable to me that we should try to find some fair solution, and I have therefore suggested that the rate for francs to be furnished by the French Government to the American Government for the month of October be fixed at 5.60 and that the market rate shall not be permitted by the French Government to go any lower. If the French Government or the Bank of France purchases the dollars offered in the market at, say, 5.48 or 5.50 and maintains such a rate, it would be equivalent to supplying us with francs required to cover American private demands.

I believe that you will agree with me that the above conclusions are fair and correct, and I hope very much this will be acceptable to the French Treasury. I am satisfied that the American Treasury does not wish to purchase francs at an unfair rate and that it would be quite willing to purchase francs at whatever rate may result in a natural free market, but that it will not look with favor upon the establishment of an abnormal rate without previously coming to a mutually satisfactory agreement as to what that rate should be.

With kindest regards and hoping to see you soon, I am,

Very sincerely yours,

(In pencil) N. H. Davis.

Captain Thion de La Chaume,
2, rue St. Florentin, Paris.

Exhibit No. 3009

Blue

London, *Dated September 14, 8 p. m., 1918,*
[Rec'd. 15, 10 a. m.]

Secretary of State,
Washington, D. C.

Urgent. 1897. September 14, 8 p. m. Leffingwell from Crosby 525. Telephonic communication with Paris very bad last two or three days. Officials with whom telegraphic communications has been taking place out of Paris yesterday and today. In interview with Davis on Tuesday last De Lachavme indicated that French Treasury expected to fix five forty seven as rate between Governments and to arrange with Bank of France that market rate should be maintained at between five forty five and five fifty. I have expressed objection to the fact that even tentative determination of rate should be made in Paris without prior consultation either in Washington or with me.

Referring to change in attitude toward maintenance of rate reported in my number 286 from Paris, explanation now given is that Finance Minister endeavored to stabilize market limiting himself to slowing up the movement and that at present stabilization between five forty five and five fifty seems probable and conforms to the intentions of the Ministry. This does not alter the fact that we had reason to rest upon the statements made in my 286 and that we were given no opportunity as the market went off sharply in a few days to insist upon any action to prevent variation from the program that had been (?) to us. There was some special demand for francs to reestablish Spanish balances in Paris that had been withdrawn from that capitol when it seemed in danger from the Germans and also notable transfers of French balances from London but am inclined to think market was permitted to go to its present level with a view to the effect it would have upon Governmental rate between French and American Treasuries. This, however, be entirely just, since there is a natural desire upon the part of the French to see their exchange improved by the failure to confer with us. On the other hand after making statement to me which was known to have been cabled to you in my 286 gives us moral right to insist upon five sixty at least for exchanges between governments this being minimum figure indicated to me. While he should have been consulted before the indicated programme was abandoned and while we must insist hereafter that market rate shall be subject to understandings as well as Government rates, yet it would now be injurious to French general situation to require that the market rate should be put back to five sixty. Compromise in a situation which has grown out of failure of the French Government to maintain its indicated position may be found in having for the month of October a five sixty rate between the Governments with agreement to maintain the market rate at from five forty seven to five fifty. Meanwhile the whole subject to be considered with respect to future stabilization. Doubtless Finance Minister will urge that he will be criticized for selling francs to us below their value as indicated by the market but since last year we purchased francs for a considerable period at higher than the market value he may reasonably bear such criticism for a time. The disparity of ten centimes between the two rates would doubtless cause some kicking from army officers in France. This is not a matter of first importance but in general we should aim as soon as possible at having market and Government rates established at substantially equal figures satisfactory to both treasuries. Hope to have five sixty rate for Government purposes and not less than five fifty for market accepted pleasantly by Klotz Monday or not later than Tuesday, but if not at least five fifty five, which has been suggested here by French Finance Agent in London. French Treasury would be prepared for notification on Moday at rate binding it and higher than five fifty. Will have representative in Paris Monday or Tuesday in order to make up for delay. Will notify Army informally here as soon as rate is fixed, you at the same time establishing official rate with War Department.

PAGE.

HG.

EXHIBIT No. 3010

INTER-ALLY COUNCIL ON WAR PURCHASES AND FINANCE,
Sunderland House, Curzon Street, London, W. 1., September 16, 1918.

MY DEAR MR. RATHBONE: I learned on my arrival here of your appointment as Assistant Secretary and take this first opportunity of congratulating you as well as the Government.

In obedience to your and Leffingwell's suggestion, I shall be glad to remain here at least until Cravath's arrival, especially as I am anxious, if possible, to assist in getting some of these pending questions settled. It seems that the cereal question with the British is about settled. Your reply to their memorandum was excellent.

As to the French situation, I am not so comfortable. The more I see and think of the French situation and proposals, the less sympathy I have. As a matter of fact, French prosperity, increased confidence and the improved military situation would automatically kill their proposals if the questions involved had not reached the argumentative stage whereby the French pride and desire for after-the-war advantages, or call on our raw materials, do not allow them to drop the question. I am concerned about getting francs after next year and after the war with which to meet our requirements until the Army can get out of France, and think now is the most propitious moment for us to press for and obtain a definite arrangement with the French Government to furnish us francs for that purpose and the price at which they will furnish them. For the last six weeks, the French Government has been able to sell war bonds to cover all its requirements and make a small reduction in its debt to the Bank of France. Crosby and Tardieu are conducting, unofficially, negotiations by letter with a hope or arriving at some solution of the French proposals for submission to the respective Governments.

In my opinion, we should not discuss the French proposals any more, except in connection with counter proposals from us, as above indicated, and also, possibly, in respect to the disposition after the war to be made of all the docks, railroads, etc., built and put there by us. France will really have need for most of those improvements, but of course won't admit it unless we start to take them away. After all you hear in the States, it is difficult to realize that France is undoubtedly more prosperous than in all her history. While the improvement in franc exchange is in one way advantageous, they didn't act just right about it as they now admit. They had told Crosby only a few days before that they wouldn't let the market go below 5.60, and without any advice or consultation, let it go to 5.47 when it would not have been difficult or have required more funds to maintain 5.60. The so-called market rate is no longer a real market quotation. By advancing dollars for French private requirements we eliminated the natural supply of francs to cover American private requirements and the present one-sided market represents nothing but the arbitrary price fixed by the French Government or Bank of France for the francs required by our nationals, and which could be put at 5 or 5.40 if measures are not taken to prevent it or unless the market is thrown open again, in which case there is no telling where the franc might go. Avenol, the French Financial Representative here, told us yesterday that during August, the French people—not the banks—who evidently had been carrying large balances here, sold £10,000,000 against francs. During the same period the Bank of France bought £4,000,000.

You should have received the Spanish agreements by this time, although the pouch is slow. I was sorry you weren't there to draw the agreements, but did my best and hope you will find them all right. Fortunately, we didn't have to agree to much. It was 105° in Madrid (rather warm for negotiating) and I was glad to get to San Sebastian. I will tell you all about my Spanish experience when I see you. It was a strain, but in many respects most interesting and amusing. Enclosed you will find copy of a letter received from Banco Urquijo, proposing reciprocal open credits between Spanish and American banks. This can be worked out, in my opinion, to considerable advantage and provide a permanent and satisfactory means for covering our peseta requirements.

I am glad Cravath is coming back.

With best regards to Leffingwell and yourself, also Strauss and May, I am

Sincerely yours,

(S.) NORMAN H. DAVIS.

Honorable ALBERT RATHBONE,
Assistant Secretary of the Treasury.

P. S.—Crosby seems to be in much better health than when I left him.

Enclosure.

EXHIBIT No. 3011

(Charge to Treasury Department.)

SEPTEMBER 17, 1918.

AMEMBASSY,
London.

For Crosby from Rathbone, Treasury 414. Embassy's 1897, September 14, 8 p. m. Your 525. Before receipt of same Leffingwell and I had long talk with Simon regarding exchange and understand he has cabled his Government. We told him that we were not adverse to improvement in the franc rate provided it were done in an orderly manner and with the knowledge and cooperation of both treasuries; that on the lines of your 494 French Government should furnish Red Cross, Y. M. C. A., Knights of Columbus, and other similar organizations and all governmental departments with francs they need at agreed rate; that commercial rate should be maintained at figure agreed upon by both treasuries French Treasury furnishing francs needed for that purpose and United States Treasury furnishing dollars required on understanding that there would be no relaxation of French import restrictions and that London rate would be kept at a parity; indicated that we thought French Treasury should work in close cooperation with Kent who would be able to materially aid and supply valuable data. We stated we saw no objection to the actual operations being conducted by the French Treasury much in the same way as the British Treasury looks after its exchange in New York. Commercial transactions could be handled in this manner while governmental requirement could probable best be handled in manner similar to that by which francs have heretofore been supplied for army purchases. We stated that it was our disposition to meet the wishes of the French Treasury in regard to gradual increase in franc rate after full opportunity of discussion but that the ultimate object in view should be to stabilize franc at not less than discount of 2% from its dollar parity. Agree with you it would now be injurious to require commercial rate put back to 5.60. We urged Simon for present to stabilize at not higher than 5.50 in view of present market and French maturities of April 1 next holders of which have right to require payment in francs at 5.70. Await advices from you regarding government rate for October. In this connection Comptroller has received cable from Ginn (Embassy's 5056 from Paris, September 12, 6 p. m.*) relative to paying treasury salaries in France at monthly rate fixed by agreement between French and United States Governments. Ginn asks that his employees may have benefit of governmental rate for September and trust that you can arrange accordingly. It seems obvious that government employees should receive salaries at governmental rate but to obtain this they must look to French Government as Ginn advises the banks will give only current rate for justice checks, which rate on date of Ginn's cable he states at 5.40.

(s) ALBERT RATHBONE,
Assistant Secretary of the Treasury.

AR/HEH.

EXHIBIT No. 3012

Blue

SEPTEMBER 17, 1918.

(*To American Embassy, London, from American Embassy, Paris, signed "Sharp", dated September 16, 6 p. m. Rec'd. September 17, 8:45 a. m. No. 306 (from Hollis?)*)

Davis is right about our official rate of exchange with France. We must keep before us constantly elemental fact that open market rate results from supply and demand of bills in markets and tends to remain stationary if supply of dollars equal demand. If French demand for dollars is removed from market through supply furnished by United States in America, the supply becomes excessive by artificial methods and their price necessarily goes down. Inexcusable to permit artificial conditions continue to our disadvantage. Unless France will agree to stabilize dollar market in France at some agreed figure, we should refuse to permit private French purchases made through French Government. Loree is here and will see de la Chaume today about rate for October. De la Chaume absent when Davis telegram received Saturday and not yet returned. On your return to France whole situation should be discussed and new agreement made. Treasury operations and bank conditions of all Allied Governments should be mutually disclosed and discussed. Banks loaning money require statements why their our Government arranged to force this now but may be soon. Am surprised at questions raised. Our advances to French most desirable for we shall require all available French credits before our Army leaves Europe, but now is the time to require favorable terms on credit and exchange.

EXHIBIT No. 3013

[Copy]

16TH SEPTEMBER, 1918.

HON. NEWTON D. BAKER,
Secretary of War,
Belgrave Mansions Hotel,
Grosvenor Gardens, London.

MY DEAR MR. SECRETARY: I enclose herewith a memorandum, which may be more detailed than you care to go over, but, on the other hand, it may be all interesting to you.

For the moment, I desire particularly to call attention to the fact that we have no arrangement with the French Government for the supply of French funds needed in France throughout the war, and we have no arrangement for the supply of such funds as may be needed while our troops are being moved back to the United States. While the making of these arrangements is probably a Treasury function, it is one of such importance, and perhaps difficulty, that I deem it my duty to place it before you, since it may be judged desirable that any undertakings which you may now make for the transfer to France of large numbers of American troops shall be conditioned upon the supply to us by the French Government of the francs required for our operations in France during the war, and for the removal of the troops just mentioned.

I shall be glad to go over the subject with you at your earliest convenience.

Cordially yours,

(S.) O. T. CROSBY.

P. S.—Definite action is solicited in paragraphs 17 to 21, inclusive.

EXHIBIT No. 3014

Blue

[Pencilled note: Mr. Kieley, Secretary McAdoo should read this very important cable immediately upon his return. R. C. L. Oct. 28/18.]

[Recd. 26, 4.08 p. m.]
PARIS, *Dated October 25, 1918.*

[Pencilled: Mr. L., Mr. S., Mr. W.]

SECRETARY OF STATE,
Washington, D. C.

Urgent. 5574, October 25, 6 p. m. For McAdoo from Crosby, 625. Tardieu will probably show you letter from me concerning supply of francs for our purposes after the war. This letter resulted from numerous informal conversations begun when peace looked much further off than now and also before full appreciation of the importance of obtaining assurance of francs after the war. Though the controlling conditions which led to the suggestions may now be somewhat modified, they still, in my opinion, warrant my recommendations. Following explanations will aid in interpreting letter: One. The principal objective is to secure francs after the war. Two. Another objective is to aid in giving *needed support to the Bank of France during the war and during the trying period of three after the war* in the purchase of foodstuffs and raw materials, particularly, those required for rebuilding the devastated provinces. Four. Theoretically it might be held that all francs after the war should be purchased by cancellation of existing French obligation. Practically I do not believe you can rely on this to a great extent. The *Technical* on demand maturity of obligations held by us will not secure their payment. No court exists to enforce payment, and the French Finance Minister continually holds that even with respect to obligations signed after the twenty-fourth September, 1917, we cannot justly claim that they are actually payable on demand and that they could not make such payment save in small part, which in any case they will make from time to time, when judged possible. Should the French insist upon this point of view, the absolute necessity of our depositing francs during the period of the withdrawal of troops might result in a gold demand upon us and the arrangement contemplated is simply a substitution of other materials through a friendly understanding between the two governments instead of leaving the matter as a subject of possible unfriendly controversy at the time when our needs would be so imperious that we should be at a disadvantage. *The special credit suggested is in fact the purchase price of francs required by us after the war.* Fifth. In suggesting the proportion sixty forty and seventy-five twenty-five, I was moved by consideration of the fact that some proportion seemed desirable to be provisionally adopted in view of immediate excesses of our expenditures in France over the French expenditures in the United States and further because the particular ratio sixty-*the* had been strongly urged by Klotz and it was represented by Tardieu that if were adopted even temporarily as a recommendation by me it would result in the immediate undertaking of negotiations between the French and British Treasuries for after the war credits to France. The letter plainly shows, however, that this ratio is not considered important by me as a part of my recommendation and that it is presumed to be subject to change at any time on the motion of either Finance Minister concerned. While it is true that the French Treasury, according to my views, should have undertaken the British negotiations earlier and without waiting for my recommendations, yet, inasmuch as considerable feeling had been developed on this point, I deem it worth while to expose myself to the embarrassment of having my recommendations entirely renounced rather than to continue indefinitely a stalemate situation in the negotiations between Paris and London which are now under way. Incidentally it appears that for the next few months it is

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NOTE.—Italics denote underscoring on original in pencil.

probable that forty percent of the dollar value of francs furnished to the American Government represent the excess over French expenditures in the United States.

Six. The undertaking of the French Government to supply us with francs may go far beyond the figure of a billion and a half dollars as the arrangement proposes that all United States expenditures in France growing out of the war are thus to be covered. While the rapid progress in military events may diminish our expenditures in France as compared with first estimates, it remains that in the opinion of Stettinius a *billion and a half dollars seems a conservative rather than unconservative estimate of our expenditures here after the war.*

Seven. In paragraph eleven of the letter it is provided that the French Government cannot use the materials purchased in the United States for manufacture and resale to third parties, it is clear that to express such a thing in precise terms would be difficult without putting in the hands of the American Government the power of *parcelling* French export trade. It will (not) serve, however, when properly drafted as a protection for our industries.

Eight. No specific mention is made in the letter of furnishing francs for American Nationals but their interests are protected by the provision that funds made available *to the French cannot be used if the dollar is at less than gold parity.* It does not seem that we can legitimately ask for anything more than (?) of exchange after the war since if we exclude the theory of obtaining a billion and a half dollars worth of francs by cancellation of existing obligations the franc might at normal times go to a premium over the dollar. The burden of maintaining the dollar at a gold parity is substantially thrown upon the French if they are to enjoy the funds in question.

Nine. While I had myself at first urged that some formula relating to the condition of the Bank of France should determine credits to be established in favor of the French Government, I am convinced that any such formula will include doubtful elements which however, lead to vexatious discussion between the Governments and perhaps eventually to a refusal on the part of the French Government after the war to accept our views.

Ten. Moreover, no consideration of the condition of the bank of France alone will include the satisfaction of our mutual requirements during the post war. This overestimating of need is the basis of the arrangement suggested. The limiting figure suggested is less by six *billion francs than the amount submitted by Tardieu* as that which his *Government would require for all purposes in the United States during three years.*

Eleven. If an indemnity should be obtained from Germany applicable to reconstruction in France, the proportion of francs paid for by goods would be automaticl*y* diminished and applied to cancellation of French debt. French Ministers assure me they expect to obtain indemnity from Germany for all damages suffered by them. Estimate of this damage is being prepared and will be furnished me in about ten days. *It will be much larger than the total credit mentioned in my letter.*

Twelve. The value of French exports to the United States during the first three years after the war will *probably be less than the sum of the interest charges on the debt of France* to the United States, plus the debt to our citizens maturing during the same period in so far as any deficiency in respect to these two items may be made up out of the limiting amount named in the letter, the amount for raw materials will be correspondingly diminished, and, therefore, probably not amount to more than *$400,000,000 a year.* This is less than one half the amount that France has been drawing annually from the United States since our entrance into the war.

Clemental advises me that pre-war exports from France to America may be largely increased, but only on condition that our policy through importation of wines and our imports duties on other luxuries MUST be radically modified.

Thirteen. Munitions contracts usually provide that in case of peace the materials involved may be changed in character so as to be useful for other purposes than those originally intended. As our loans for war purposes must cease with the conclusion of peace the values involved must be in some way provided for now unless the Government placing the orders can find means independently to pay for the material or make an absolute cancelation which would probably work a hardship upon our manufactures the arrangement proposed would cover this case and the amount involved at any one time on orders out standing would probably amount to more than $100,000,000.

Fourteen. Although through oversight no mention is made in the letter of the condition that if the limiting amount mentioned therein shall not be spent during the three years the balance shall be applied to the canceling of the French debt, yet this understanding was perfectly distinct by the last conversation with Mr. Tardieu and will not be questioned by him.

Fifteen. While it is uncertain that an arrangement of the kind indicated in the letter to Mr. (*Letcheur*?) [penciled: Loucheur ?] between the French and the British, yet it is not improbable that, having now some basis of discussion an arrangement may be effected by which France will be able to obtain coal and other British supplies of which she will stand in great need for a considerable period after the war. I am informed by Tardieu and it is a matter of public statement now in France, that the principal mining fields in French territory will not be available inside of two years and will not be completely eight or ten years.

Sixteen. It seems not improbable that French Governmental finances will be more embarrassed at the end of the war than during the war unless they continue to borrow from their public at extraordinary high rates. The disappearance war motive inspiring the purchase of national obligations will doubtless make it extremely difficult even if it were otherwise desirable to obtain necessary funds by borrowing. On the other hand their expenditures including interest on public debt will amount approximately to eighteen billion francs per annum. This is more by nearly ten billion francs than the present amount obtained by taxation. No plan has been evolved to meet the situation and the rapid movement of the war does not give time for the evolution of a satisfactory plan. Thoughtful men here believe that serious troubles are ahead of France in this respect. Our continued demand *for francs while benefiting individuals will increase difficulties of the Treasury*. Their situation will, of course, be eased by the resale of materials purchased as francs advanced to us, but even with this relief, their future is extremely grave. It is not improbable that, even *the most cold blooded consideration by us as a creditor of France would lead to a helpful attitude on our part, somewhat along the lines of the suggested arrangement*, which, however, must constantly be contemplated as directed toward the acquirement by us of francs for removing our army from France and the settlement of unknown claims against us. While our interest in obtaining francs is the dominant one involved in the suggestions made, it is also true that such American sentiment as may favor the aiding of France in the extremely difficult period which is likely to follow the war will be thus satisfied in the simplest and least expensive way.

Seventeen. Klotz is suspending judgment on my letter to Tardieu stating to me today that he will advise me in the course of a week of his views on same.

SHARP.

EXHIBIT NO. 3015

OCTOBER 26, 1918.

DEAR MR. PRESIDENT: I have heretofore discussed with you the French financial situation, but I think it of great importance that you should be fully informed concerning it, and I enclose a memorandum which has been prepared for me dealing with the subject. I also enclose a copy of M. Clemenceau's message of last June, and a copy of my reply which was sent with your approval.

You will recall that when M. Clemenceau's message was under discussion I felt that it was the desire of the French Government through the financial aid then requested of the United States Treasury to obtain credits in this country to provide for post-war expenditures in connection with the reconstruction of France. I have now been informed by M. de Billy that M. Tardieu is expected to reach here next week and during his short stay in this country desires to discuss with me the provision of credits to aid in the reconstruction of France and the dates to be fixed for the maturity of the French obligations held by the United States Government.

I feel it to be of great importance that we should be assured of a supply of francs for our Army in France during the war and after hostilities shall have ceased until the return of our troops, and it is clear that no discussion of this subject will be possible without entering on the questions which M. Tardieu desires to take up, even if we should otherwise prefer to postpone consideration of these questions. For reasons which I shall explain it seems essential that the British representatives should also participate in the discussions.

Unless the francs needed by our Army in France are obtained from the French Government resort would have to be had either to an offering of United States franc obligations or to the foreign exchange market. I should not want to be dependent upon floating a United States loan in France as such a step might seriously injure the credit of the United States. If we should be obliged to purchase on the market the exchange needed to produce the francs we require the dollar would speedily go to a discount as compared with the franc, and our whole foreign exchange situation would be badly disorganized. True, we might demand payment of the French obligations we hold to correct exchange, but such demand probably ought not to be made and might not be met if made, and our requirements for francs would nevertheless have to be supplied, be the consequences what they might. I am therefore most anxious to secure from the French Government an agreement to continue to supply the francs needed by our Army until their return home, against reimbursement in dollars, to be applied by the French Government only to the repayment of France's debt to the United States or other purposes specified or approved by the United States Treasury.

If the French Government does continue to so supply the francs for our Army it is to be anticipated that by the time peace is declared the French Government will become entitled to a large amount of dollars in this country in excess of its war expenditures during the same period, and the amount will have been largely augmented by the time our Army reaches home, unless applied to the repayment of the French obligations held by the United States. These dollars France will be most anxious to use to pay for the commodities which it must purchase without its territory to provide for the reconstruction of the invaded portions of France. France must have foreign credits to meet these expenditures, as for some time after the war it is not likely to have either gold or commodities to meet all its foreign balances, and consequently no doubt will object to applying its accumulated dollars toward the payment of the loans heretofore made to it by the United States Government unless assured of the foreign credits needed for reconstruction purposes. In view of the provisions of the First Liberty Bond Act the United States can hardly refuse to exchange the demand obligations of the French Government acquired under the authority of that Act (about $650,000,000 in amount) for long time obligations, and without the acquiescence of the French Government a demand for the payment immediately after the war of the indebtedness of France to us incurred before our Army participated in force in the battles upon the western front could not be made with very good grace nor would it appeal to our people as fair treatment.

It is obvious that, to relieve us of the burden of foreign expenditures to support our Army as well as for other and even more urgent reasons, we must make every effort to have our forces returned home as speedily as practicable. How quickly this can be done depends partly on the progress of our shipbuilding before peace is declared, but in part also on whether we can obtain the use of foreign ships. If British ships are used for commercial purposes while our ships are engaged in bringing home our Army, and if British Empire products are sold for cash while ours are to a large extent sold against dollar credits established in exchange for francs supplied to our Army, the inevitable result will be that Great Britain will secure an undue share of the cash markets of the world. It is most necessary that we arrange to secure such use of British or other foreign ships as may be requisite to bring our soldiers home expeditiously, and that Great Britain should share with us in supplying the credits required to defray the cost of the commodities needed for the reconstruction of France. I have no reason to believe that Great Britain will not be willing, in coöperation with the United States, to provide credits for the reconstruction of France, but in view of the loans made by Great Britain to the Allied Governments before we entered the war—its loans to France since the commencement of the war to the present time being upwards of £400,000,000 or, say, $2,000,000,000—a discussion with Great Britain may involve a general discussion as to the war indebtedness incurred by the various Allied Governments to the British Government, and the indebtedness (now amounting to $3,652,000,000) of the British Government to the United States.

The dimensions of the British problem of bringing home her army in France and of obtaining the francs needed for its support until its return are so much less formidable than our problem that I merely refer to it.

I am sending you this letter for your information so that you may be informed of the questions which are about to be brought up for discussion by M. Tardieu upon his arrival next week. No action upon your part is requird at this time unless, indeed, you have some directions to give me concerning the matter.

Cordially yours,

[s] Wm. G. McAdoo.

Enclosures 3.

The President,
The White House.

EXHIBIT No. 3016

(*Telegram received from Paris, dated Oct. 29, 1918. Recd. 29, 11:32 a. m.*)

SECRETARY OF STATE,
Washington:

Important. 5606. October 29, 1 a. m.

632.[1] Your 508.[1] Although transfers in London have thus far been relatively small, are advised that many bills are accumulated and have been presented and will soon be passed by American Expeditionary Force representatives. It remains still extraordinarily difficult to obtain any reliable information as to bills from either French or British Governments that will *presented* within a given time. Delano states he is under impression that French think there may be contentions about some of their railway claims and that this is not a good time to have them brought up. Hence reason for delay. My own impression is that they also are anticipating lower rate of exchange, and therefore in no hurry to present bills now. Having in view this last consideration, I shall endeavor, as far as possible, to get bills through, but as there is as yet no centralized Army bureau for handling these matters, whole subject remains extremely difficult.

SHARP.

R. A. R.

EXHIBIT No. 3017

EXTRACT FROM THE HEARINGS BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS ON THE FIFTH LIBERTY BOND BILL, FEBRUARY 13, 1919

(Pp. 44–45) The CHAIRMAN. Some of the committee, and I am among the number, would like to know, if you can tell us, how much of the loans we have made to the Allies (and we have made about $8,000,000,000 in round numbers) was used by the Allies to pay their bonds, notes, or indebtedness to others than the United States.

Mr. RATHBONE. You mean to pay their bonds issued in the United States?

The CHAIRMAN. Yes; to pay individuals they owed in the United States, or bonds they owed to other countries.

Mr. RATHBONE. None of it, so far as I know (and I am very sure that is the fact) has been used to pay bonds owed to other countries. There has been a certain amount of it used to take up maturing obligations of those Governments issued in the United States and held by people in the United States, as they became due.

The CHAIRMAN. Do you know how much?

Mr. RATHBONE. I could tell you approximately.

Mr. MAY. On December 31 it was $394,000,000. That is the total they had paid off.

Mr. LEFFINGWELL. It is not safe to say that amount was used out of our loans, because they had other resources which they availed of. Those are the loans placed in our markets which have been repaid during the period mentioned. They had various funds available to themselves in this country.

The CHAIRMAN. It will not exceed $400,000,000 in any event?

Mr. LEFFINGWELL. It will be a great deal less than $400,000,000.

The CHAIRMAN. That carries out our promise when we presented the first bond bill to the House that practically all of it would be used in purchases in the United States other than paying off indebtedness in the United States. Some gentlemen wanted to put in a provision they should not use the money for paying off bonds held in the United States.

Mr. LEFFINGWELL. The reason I qualify the $400,000,000 is that Great Britain had something like $70,000,000 paid to her by the Shipping Board for the ships commandeered at the beginning of the war, and she had large amounts of securities here.

The CHAIRMAN. I take it that practically none, no substantial amount, of our loans have been used in that way. A gentleman asked me about that today.

Mr. LEFFINGWELL. It is still true.

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[1] Rathbone and Crosby numbers. This telegram probably should be for *Rathbone from Crosby.*

Mr. **Rathbone**. It is more than true. As of December 31, our net loans were $7,685,000,000 odd. And they had accounted to us, for expenditures out of our loans and out of their other resoruces, for $9,200,000,000.

Mr. **May**. That is $1,600,000,000 more than the loans we have made.

* * * * * * * *

(Pp. 52-53) The **Chairman**. Have you a statement you wish to make before we ask you questions, Mr. Leffingwell?

Mr. **Leffingwell**. Yes; Mr. Chairman, as I have been listening to the talk this afternoon and have thought of the responsibility which this committee has shared with the Treasury during the 18 months that I have had the pleasure of doing business with you, it occurred to me that I might possibly help you in some of the things that are bothering you if I should say quite freely what I think you have accomplished and what you have helped the Treasury to accomplish during the war. These foreign loans that you have made it possible for the Treasury to make have been dealt with with the utmost caution in the Treasury. Mr. Rathbone has shown you, I think, how much detail is in our possession, how carefully these things have been analyzed, and how fully we are cognizant of all the ramifications of the problem, and you gentlemen here, as well as the House and the country, will be interested to know, I think, how important these foreign loans have been in the past.

Going back to the beginning of the war—there was very little that America could do except make foreign loans. We did not have an important Army, and, while our Navy supplemented very effectively the British Navy, that was not yet a critical situation. I verily believe that during the first six months of the war the loans we made to Russia and the knowledge of our willingness to make further loans kept Russia in the war and held that eastern front for six good months. It cost us $187,000,000 in loans. What would it have cost if you had not held that eastern front for that six months?

It was the loan that we made to Italy during the summer and fall of 1917, in that critical period when the great German offensive broke loose on Italy that gave the Italian people courage and gave her Government effective means to replace the supplies, the munitions, and food which had been lost as the result of the German offensive.

In the spring of 1918 it was the silver that the Congress authorized us to melt down and sell to India that held India against the Germans, if not in a physical battle line, yet in an equally real and tangible way.

During the summer of this very year—it seems scarcely possible now since so much water has gone over the dam—that in the summer of this very year——

Mr. **Crisp** (interposing). You mean 1918?

Mr. **Leffingwell**. In the summer of 1918, when the Germans were pushing the English and the French and the Americans, what were of them, on that line in France, it was the credits that the American Government was able to give the French Government that sustained the French in those bitter days, when their money was being withdrawn from the banks, because the Huns were overrunning their cities and their homes, and Paris itself was under gunfire.

We count the cost all the time in the Treasury; every penny that goes out we criticize and examine and scrutinize in the most minute and critical way, but I say to you that those loans which you made it possible to consummate constituted one of the most potent factors in the ending of the war, and I haven't any doubt that those loans made it possible to end the war in 1918 any more than I have doubt that the lavishness of men and material from America contributed to the quick result.

And when they criticize hasty expenditure, the accumulation of supplies, the guarantee on wheat, think what another year's war would have cost—if you had stopped to calculate exactly how much you could get by with; and it was just because you did not stop to calculate, but used every intelligence, and every skill and went ahead to finish the war, that you haven't another year's World War on your hands.

We criticize these things in the Treasury—we are criticizing the other departments of the Government—not in a public way, but we are criticizing them all the time for their expenditures; and when Mr. Rathbone makes a foreign loan I criticize him and tell him that I can not find the money for him. But let us not forget that we have saved the lives of good American boys by the way we have handled it.

Mr. **Moore**. If you made that statement on the floor you would be applauded.

The **Chairman**. I think you are right about it.

DEBATE ON THE DECLARATION OF WAR

[From the Congressional Record, April 5, 1917, p. 332]

Mr. Kitchin said in part:

"Profoundly impressed with the gravity of the situation, appreciating to the fullest the penalties which a war-mad moment will impose, my conscience and judgment, after mature thought and fervent prayer for rightful guidance, have marked out clearly the path of my duty, and I have made up my mind to walk it, if I go barefooted and alone. [Applause.] I have come to the undoubting conclusion that I should vote against this resolution. [Applause.] If I had a single doubt, I would with profoundest pleasure resolve it in favor of the view of the administration and of a large majority of my colleagues, who have so recently honored me with their confidence. I know that I shall never criticize any Member for advocating this resolution. I concede—I feel—that he casts his vote in accordance with sincere conviction. I know, too, that for my vote I shall be not only criticized, but denounced from one end of the country to the other. The whole yelping pack of defamers and revilers in the Nation will at once be set upon my heels.

"My friends, I cannot leave my children lands and riches—I cannot leave them fame—but I can leave them the name of an ancestor, who, mattering not the consequences to himself, never dared to hesitate to do his duty as God gave him to see it." [Applause.]

[From the Congressional Record, April 5, 1917 p. 376]

The CHAIRMAN. The gentleman from Illinois (Mr. Mann) is recognized for 10 minutes. [Applause.]

Mr. MANN. Mr. Chairman, I wish to pay a tribute to the courage of those Members of the House who in the exercise of the responsibility cast upon them have had the courage to express their opposition to the pending resolution, and I want particularly to pay my tribute to the rare courage of the gentleman from North Carolina (Mr. Kitchin). [Loud applause.] I do not agree with them [applause], but this is a time when the Members of this body, aye, all the citizens of the country, have the right to express their opposition to the war, for to-morrow, when the war is declared, it will become the duty of all citizens to hold up the honor and the power of the Republic. [Applause.]

DEBATE ON THE FIRST LIBERTY BOND BILL

[Congressional Record, April 13, 1917, at p. 626]

The CHAIRMAN. The House is in Committee of the Whole House on the state of the Union for the consideration of the bill H. R. 2762, which the Clerk will report.

The Clerk read the title of the bill, as follows

"A bill (H. R. 2762) to authorize an issue of bonds to meet expenditures for the national security and defense, and to extend credit to foreign governments, and for other purposes."

Mr. KITCHIN. Mr. Chairman, I ask unanimous consent to dispense with the first reading of the bill.

The CHAIRMAN. The gentleman from North Carolina asks unanimous consent to dispense with the first reading of the bill. Is there objection?

There was no objection.

The CHAIRMAN. The gentleman from North Carolina is recognized.

Mr. KITCHIN. Mr. Chairman, in presenting this bill we take the first step in financing the biggest, most momentous enterprise ever undertaken by the Government of the United States.

This bill contains the largest authorization of bond issues ever contained in any bill presented to any legislative body in the history of the world. I am happy to report that this bill has a unanimous approval and indorsement, and has the unanimous vote of the entire membership—Republican, Democratic, and Progressive—of the Ways and Means Committee. [Applause.]

The terms of the bill are simple. We provide for the issuance of $5,000,000,000 of bonds and an additional issue of $2,000,000,000 of one-year certificates of indebtedness. The terms and conditions of the bonds—that is, as to the maturity, the payment, the denomination, and all terms and conditions—are left to the discretion of the Secretary of the Treasury and the President, except that they must bear interest at not more than 3½ per cent per annum and do not possess the circulation privelege. The proceeds from the sale of $3,000,000,000 worth of these bonds are to be used by the President and the Secretary of the Treasury, in their discretion, to loan to foreign governments in war with the Imperial German Government. In other words, the bill provides that this Government, through the Secretary of the Treasury and the President, can purchase of foreign governments their bonds, not to exceed $3,000,000,000, but such bonds must have the same terms and conditions, the same rate of interest, the same maturity, and all other conditions as the bonds of the United States have. * * *

Mr. MADDEN. The bonds of the Allies are selling below par——

Mr. KITCHIN. I will answer the gentleman. We have to trust the governments to whom we loan the money, for the reason that we have no power to legislate for them nor have we any power to make them pay for the bonds, even at 2 per cent, or at 5 per cent, or at 8 per cent. We have to trust them, of course.

* * * * * * *

(P. 627) Mr. SHERLEY. Is it not true that it is not contemplated that bonds now issued by the governments of the Allies and now owned by individuals are to be taken by us, but that what is contemplated is that bonds from the Allied Governments, with terms similar to those of ours, shall be taken to such extent, not exceeding $3,000,000,000, as in the discretion of the President may seem proper?

Mr. KITCHIN. That is correct. The bonds will be purchased from the foreign governments, not from individuals. There is not to-day in existence a bond of any foreign government that meets the terms of the bonds provided for in this bill which we must buy.

Mr. MADDEN. The mere fact that new bonds are to be issued by the governments of Europe, to be exchanged for the bonds issued by the Government of the United States, will be no evidence that they will be worth any more on the market than the bonds already issued by those governments.

Mr. KITCHIN. No; to be candid, I do not think they will be worth par, but that is not the protection for us to consider.

Mr. MADDEN. Why not?

Mr. KITCHIN. I would oppose any purchase of bonds of the Allied Governments if it was not going to help us more effectively to prosecute this war. That is the very object of it, and we leave it to the Executive, to the war-fighting power of our Government, to use the $3,000,000,000 for the best interests of this country in order to quicken the termination of the war in which we are engaged, and if the Executive thinks that a loan to a foreign government is the best way to do it, I for one am willing to give him such authority. The Constitution provides that the President shall be Commander in Chief of the Army and Navy.

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(P. 630) Mr. HAYES. Mr. Chairman, I wish to ask the gentleman if there is anything in this bill that prevents the Allies who receive this money—this $3,000,000,000—from the United States from taking up former issues of bonds now in the hands, for instance, of their agents in this country?

Mr. KITCHIN. Oh, yes.

Mr. HAYES. Should there not be express language in there limiting those bonds to be exchanged for absolutely new issues?

Mr. KITCHIN. The bill expressly provides that the bonds shall be purchased from the foreign governments on equal terms with the bonds we authorize to be issued, so that could not apply to the bonds of any foreign government in existence, because there is not in existence any such bond which would comply with the terms that would be put into the United States bonds under this act. They must be bonds hereafter issued, purchased by this Government.

Mr. HAYES. The thought I had was this: There is nothing to prevent these foreign governments from taking up these higher-rate bonds bearing, some of them, 6 per cent interest and issuing in lieu these bonds or taking the money and retiring those bonds.

Mr. KITCHIN. There is nothing specifically to prevent that, but I can hardly conceive that that would be done. If we are going to lend this money to the governments that we are cooperating with to more effectively prosecute this war, why not leave it to them to expend the proceeds in any way which their judgment tells them is the best way to achieve success in the prosecution of this war and not limit or qualify the use of that money? [Applause.]

Mr. SABATH. Mr. Chairman, will the gentleman yield?

Mr. KITCHIN. Yes.

Mr. SABATH. I presume it might be the best policy, but sometime ago I read an article in which it was stated that Great Britain, in making loans to its Allies, the smaller and poorer nations, made provision before she agreed to lend this money that all of these moneys that Great Britain is to advance to its Allies shall be expended in Great Britain. Now, I do not know, but the chances are that the same arrangement could be made in this case, so that the moneys that will be loaned by this Government to the Allies can be, and should be, expended in the first instance in the United States if it can be done. I wish to say that if Great Britain can do it and has successfully done it and has made such arrangements, I do not see why our Government cannot make the same arrangements and agreements.

Mr. KITCHIN. I will say to the gentleman that if we are going in wholeheartedly to cooperate with the Allies in war against Germany, I would not be in favor of qualifying or of limiting their right to expend that money in any way they see fit. [Applause.]

Mr. BUTLER. They are fighting our battles.

Mr. KITCHIN. Yes. You will understand that they will be fighting with our money their battles, and we will be fighting with our money our battles, too. I will say to the House that the committee has considered what the gentleman has suggested, and we are of the opinion that most of this money that we will loan to the Allies for the purchase of their bonds will of necessity have to be expended in the United States. * * *

(Pp. 631–632) Mr. DEWALT. Referring to section 2, lines 24 and 25, I find that authority is given to the Secretary of the Treasury, with the approval of the President, to buy the obligations of foreign governments, which shall bear the same rate of interest and contain in their essentials the same terms and conditions as those of the United States. The question I desire information upon is this: In the judgment of the chairman of the Ways and Means Committee, does that clause preclude the possibility of buying the present outstanding bonds of these foreign governments?

Mr. KITCHIN. It does.

Mr. DEWALT. How does it thus preclude them?

Mr. KITCHIN. Because in the first place you must have bonds of a foreign government in terms equal to our bonds, the same terms in all essentials with the bonds provided for by this act, and, as no bond of any foreign government complies in any way with these terms, therefore they are not bonds that can be purchased. The only bonds that can possibly be purchased under the authority of this act are bonds to be hereafter issued by foreign governments. There is no doubt about it.

Mr. DEWALT. Now, if there be such bonds, the question which arises in my mind, Mr. Chairman, is this: In looking over the stock reports last evening I found that the French bonds now are quoted in the New York market at 94. I do not know at what figure they were sold to the French customers nor what the syndicate paid that purchased them and distributed them, but in my mind there arises this possibility, that the French people who bought the bonds might, at the instigation of the French Government, or the English Government if they were English bonds, return them for a small premium to their respective governments, and this clause provides that the United States shall buy these obligations at par. Therefore, if there be any outstanding bonds of these respective governments which are similar in their terms to these bonds proposed to be issued by the United States, the purchasers of the bonds who heretofore obtained them might again sell them to their respective governments and they would make their small profit, and their governments would make a profit by selling them at par to the United States. Therefore it strikes me, Mr. Chairman, that the suggestion made by the chairman of the Ways and Means Committee ought to be incorporated in the bill that these bonds, if purchased by the United States Government, should be exclusively such bonds as are to be hereafter issued.

Mr. KITCHIN. They are excluded by the very terms of this bill. They are to be bonds hereafter to be issued. But suppose they were not. Take France, for instance, how would it help France to get a billion-dollar loan from us if it had to take it and pay bonds for an indebtedness already incurred? What she needs is a billion dollars to prosecute the war; she wants the money to buy new provisions, new supplies, for new purposes. There would be no sense in her doing otherwise.

Mr. DEWALT. That is rather foreign to my question.

Mr. KITCHIN. I say that it is impossible under the terms of this bill for this Government to purchase from a foreign government any bonds that have now been issued; they must be bonds issued herafter, for the reason that there are now no bonds which will comply in the necessary essentials with the bonds authorized in this act.

Mr. DEWALT. Does not the gentleman think it would be the part of wisdom to make it definite in that regard and incorporate the language in the bill?

Mr. KITCHIN. Let us see how much more definite it would be:

"SEC. 2. That for the purpose of establishing credits in the United States for foreign Governments, the Secretary of the Treasury, with the approval of the President, is hereby auhtorized, on behalf of the United States, to purchase from such foreign Governments — — — not for Tom, Dick, or Harry, who now hold those bonds — — — at par, their obligations, bearing the same rate of interest and containing in their essentials the same terms and conditions as those of the United States issued under authority of this act. * * *"

Mr. MANN. There is nothing in the bill which would prevent a foreign Government issuing bonds for the purpose of paying off the indebtedness which it now holds in this country and obtaining bonds from the United States?

Mr. KITCHIN. That is true, if it issued new bonds.

Mr. MANN. Under this bill we would have to buy the foreign bonds from foreign Governments. Take the case of Russia, which desires to establish credit in the United States. There is probably no way it could more firmly establish credit than by paying off the indebtedness which it has already incurred in the United States. Is the gentleman able to say whether, in any of the plans which have been suggested, money that is practically and really loaned to the foreign Governments is to be used in the United States in the main for the purpose of purchasing supplies of various sorts or for the purpose of paying off some of the bonds which are now below par?

Mr. KITCHIN. It is my understanding that it will be used for purchasing supplies, and not for paying past indebtedness.

Mr. MANN. I am not sure which would help the Russian Government the most.

Mr. KITCHIN. But suppose it did; suppose the Russain Government owed a billion dollars. If she paid that billion dollars off to-day, it would establish credit for another billion dollars, and she could buy another billion dollars' worth of supplies on credit.

Mr. MANN. Very well. I agree with the gentleman about that.

Mr. KITCHIN. As I said, I think this money will not be used that way, but will be used to get new supplies and new munitions of war.

Mr. MANN. I do not know which way would do the Russian Government the most good, but I think it would be the sentiment of everybody here that the stockbrokers, or our good friends, the financiers of Wall Street or elsewhere, ought not to be able to thimblerig the matter in such a way that they would be able to collect in full for Russian rubles that are now worth only 50 per cent of par.

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(P. 633) Mr. HELVERING. Mr. Chairman, by the question asked by the gentleman from California (Mr. Hayes) and the gentleman from Pennsylvania (Mr. Dewalt) and the suggestions of several gentlemen on the floor, it is apparent that the idea carried in this bill is not understood relative to the foreign bonds, many gentlemen having the understanding that this money could be used to buy our bonds outstanding in this country now. Therefore would it not be wise—I offer this as a suggestion to the chairman of the committee—that an amendment be made in line 24, page 2, after the word "obligations", by inserting the words "hereafter issued?"

Mr. KITCHIN. I really do not see any harm in such an amendment, and I would not object to that, but I do not think it would add anything to it.

Mr. HELVERING. I understand that——

Mr. KITCHIN. But it will do no harm and if it would satisfy gentlemen I do not think I would object to it.

Mr. DEWALT. Will the gentleman yield?

Mr. KITCHIN. I yield to the gentleman from Pennsylvania.

Mr. DEWALT. I would suggest with reference to the proposed amendment of which the gentleman has just spoken that the amendment be on page 3, line 2, after the word "act", in this form: "Amend section 2 by inserting in line 2, page 3, after the word 'act', the words 'but such purchases of obligations shall be confined to obligations authorized and issued after the passage of this act and shall not apply to any obligations authorized or issued prior thereto.' "

Mr. KITCHIN. I would suggest that the amendment proposed by the gentleman from Kansas covers that exactly.

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Mr. **Mondell**. In reference to the suggestions that have been made by gentlemen that the loan we make may be used by foreign governments to cover obligations already issued, is not this the fact: If you make this great loan, the greatest in all history, it will be for the purpose of sustaining and extending the credit of foreign governments at war with our enemy?

Mr. **Kitchin**. That is true.

Mr. **Mondell**. We shall accomplish our purpose best if we use these funds in the way by which the cause of these foreign governments will best be sustained and their credit extended, and what if they should refund some of the bonds now outstanding in order to bring them under the provisions and conditions of this bill?

If in the opinion of these governments such action would best sustain, extend, and strengthen their credit, will we not have accomplished just what we have set out to accomplish through that method? And therefore why should we be disturbed if by reissuing or refunding, some obligations already resting on foreign governments, they may be relieved through the loans we made? [Applause.]

Mr. **Kitchin**. The gentleman is correct.

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(P. 635) Mr. **Burnett**. My idea is that much of the propaganda for this war was financed at least by those who had these very financial interests in view, and had we not better put a check on that now, while we can, instead of letting them do it, and then locking the stable after the horse is gone?

Mr. **Kitchin**. You know, before April 5 I had a little fear that they had something to do with this propaganda, too, but I do not think about that now.

Mr. **Burnett**. I want to ask the gentleman if he does not still have that fear? I do not want to committ him on that.

Mr. **Kitchin**. The committee considered this phase of the matter, and I think they will be amply protected by leaving this as it is.

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(P. 637) Mr. **Cannon**. Mr. Chairman, does the gentleman think there is any way by which the people who are not American citizens, and people who are, who have negotiated loans in this country before we were engaged in this war—and possibly lost money or possibly made money—is there any way that we can pass an ex post facto law to put them in the penitentiary?

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(641) Mr. **Fordney**. Mr. Chairman, let me say to the gentleman that the Governments of England, France, Germany, Russia, and all of the governments in Europe at war are in a life-and-death struggle, fighting for their existence, and it will be my purpose in loaning this money to the nations we propose to join, and with whom we propose to cooperate to end this frightful war, to let them have the money and use it to the very best advantage for themselves, whether that be to buy food supplies in this country or arms and ammunition or to save their credit at home. So long as the people engaged in that great war get that money into their possession I have every confidence and belief that they will expend it to their very best advantage in bringing this war to a successful close. [Applause.] I know of no set of sane men who would do otherwise.

Mr. **Curry**. Possibly not. I am willing to vote $3,000,000,000 or $5,000,000,000, or $7,000,000,000 for future credit or for the use of the foreign nations to pay their armies in the future, but I am not willing to vote a profit of $150,000,000 to $250,000,000 into the banks of the United States and Great Britain and Germany simply by the foreign government issuing a 3½ per cent bond, getting the money from the United States, and retiring the depreciated bonds already in circulation, already used, and already in the hands of the banks. [Applause.]

Mr. **Fordney**. I agree with the gentleman, and I have no idea that such a proposition is in the mind of any man in Europe.

Mr. **Curry**. Why does not the committee present that in the bill?

Mr. **Fordney**. My idea is that those people are much in need of money to prosecute this war. There is no other object on the face of the earth in the minds of the American people in loaning European nations this money. Their only purpose is to aid them in the best way possible to fight our battle across the sea without calling upon our men to go there. I do not believe that one single dollar of the money to be loaned to them as provided for by this bill will ever be used for the purpose suggested by the gentleman; if so, I would like to see some provision of law that would prevent it, because if they were to borrow this money from us and then retire outstanding bonds, what they would have to do when in need of money would be to come again and sell their own bonds at a higher rate of interest than they are getting this money from us for, a thing not at all likely to be done by them.

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[Congressional Record, April 14, 1917, at pp. 667–669]

The Chairman. Does the gentleman from Illinois (Mr. Rainey) desire to be recognized in opposition to the amendment?

Mr. Rainey. Yes, sir. Mr. Chairman, I understand the position of the gentleman who offers this amendment is this: We are preparing to loan an enormous amount of money to the friends of this Government engaged in war with the enemies of this Government. The proposition contained in the pending amendment is that before loans are made to any nation the matter must be submitted to the determination of the 435 Members of the United States House of Representatives and of the Senators from each of the States, that a discussion must occur here as to the time the loan is to run, as to the amount of the loan, as to the terms of the loan in general, and as to whether or not that particular loan is advisable.

This bill drags its weary way through the Congress of the United States. Already in the making of the bill and in presenting it to this House we have occupied nearly 10 days of time. It is hoped that to-day this bill will pass the lower House of the Congress. How long it will take to pass the upper House no man can say. It will take to discuss each loan along the lines suggested by this amendment as much time as we are consuming now in determining upon this important war measure. To-day on the western front the greatest battle of the war is being waged. The entire force of the Allied armies available for that purpose is being hurled against the Hindenburg line in northern France. To-day thousands of our friends and Allies are dying in the trenches of northern France, and, according to the theory of this amendment, before we can loan to France a dollar we must discuss the matter at great length here in the Congress of the United States. While this awful war is raging and the very life of the States who are our friends are in danger we must permit all the Members of both Houses of this Congress to determine how much money we are going to let them have in this the hour of their national peril, in this hour when they are fighting our battle along the battle fronts of Europe. France did not treat us that way 140 years ago, when our credit was gone; when it cost $150 of American currency to buy a bushel of corn; when it cost $2,000 of American currency to buy a suit of clothes. She loaned to the impoverished young Republic of the western world millions from her treasury at the request of the great Franklin without any discussion and without debate. And she sent her fleet and her armies, which finally led to the surrender over here at Yorktown and later to the end of that long war.

The Chairman. The time of the gentleman from Illinois has expired.

Mr. Rainey. Mr. Chairman, I ask unanimous consent for five minutes more.

The Chairman. The gentleman from Illinois asks unanimous consent to continue for five minutes more. Is there objection? [After a pause.] The Chair hears none.

Mr. Rainey. And afterwards she remitted the interest. The millions she expended when she sent her armies and her fleet here in the defense of this young Republic in its natal hour we have never repaid. And yet the proposition is that while her young men are suffering and dying by the thousands our Secretary of the Treasury with his advisers, the Council of National Defense, shall not be permitted to determine, and to determine quickly, where these first bombs in this fight that we propose to wage shall be placed, because this proposed bond issue is the first battle in the great world conflict in which we are entering. This is the way the great Republic of the western world enters this awful war for freedom throughout the world. We enter it by here and now putting into the conflict $5,000,000,000 in money, by saying to those executives of this Government who are qualified and who are in possession of the desired information that they shall say how much we shall give to this nation, and when, and how much we will give to this other nation, in order to produce the best results.

An amendment of the sort proposed here and pending now destroys absolutely and kills this bill. If we are to wage a campaign here in the House and let the representatives of these various nations who go to make up this great melting pot of ours suggest here that France shall have so much, that England shall have so much, that Italy shall have nothing at all in this loan and proceed to wage this sort of a campaign here in this body, we might as well abandon this method of starting this fight. [Applause.]

The thing to do is to pass this bill and pass it quickly, and to say to the nations of the world engaged in the war with us, "We propose to help our friends, and we propose to do it quickly, and we propose to do it in the most effective way." [Applause.]

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Mr. FITZGERALD. Mr. Chairman, I am opposed to this amendment, but for reasons different from those assigned by the gentleman from Illinois (Mr. Rainey).

I do not believe that time is wasted in considering these very important measures, and although four days have elapsed since the bill was introduced into this House, a single day's discussion has disclosed the fact that amendments of a vital and important character should be made to it, and will be made to it, before it is enacted into law. [Applause.]

I am not in favor of making this enormous loan upon the theory that we have initiated a program of helping some other nation in this great conflict. There is only one justification for the enormous burden that is now proposed to be put upon the people of the United States, and that is that this country is engaged in a war to maintain and to sustain its own rights as a nation, and the fact that financial and other help is to be extended to some of the belligerents that are engaged upon the same side of the contest as the United States is merely incidental to the purpose in view. Whatever may have been the conduct of France in the past, however much we may have been indebted to her, or now sympathize with her, those facts alone would not be sufficient to justify the United States in engaging in this contest. We have been brought into this contest because one of the belligerents has committed repeated acts of war against the Government and people of the United States which compel us as a self-respecting and decent nation to acknowledge that situation and to accept the challenge with which the Imperial German Government has confronted us. We are now initiating the measures that are necessary to conduct that war successfully, not to conduct some one else's war successfully, not merely to aid some belligerent in the accomplishment of its purpose except as that may be incidental and necessary in the accomplishment of our own purpose.

I would not hamper the administration in the negotiation of these loans. We happened to be arrayed on the same side with other nations. I should gladly vote to give $6,000,000,000 to the nations arrayed on the same side with us if we could win this war without sacrificing American blood and American lives. [Applause.] I have little sympathy with the suggestion that possibly we will not get our money back. I care not so much if we do if American blood and American lives be preserved by the grant of the money. [Applause.]

Mr. Chairman, in this discussion suggestions have been made that in some way the Congress should attempt to limit the use to which the governments to which this money is to be furnished may put it.

If we propose to help those governments by extending credit and enabling them to get supplies, we can not quibble about what is to be done by them with portions of the money. [Applause.] It is a matter for them to determine. The only question for us to decide is whether it is advisable from our standpoint, for the successful conduct of the war in which we are engaged, to aid in the conduct of the war by the advancing of supplies of either money or men to those arrayed with us. When we decide to act we have done all that we should do. The details are administrative and must be intrusted to the executive department of the Government. * * *

Mr. MANN. Mr. Chairman, I did not know that I should speak upon the bill in any of its phases, because I doubted the necessity or desirability of speaking. But Mr. Chairman, the amendment now proposed goes to the very basis of the proposition in the bill, as to our policy in regard to the war. The administration has proposed that it shall have the authority to loan $3,000,000,000 to those nations now engaged in war with the country upon which we have declared war. When we take the responsibility of engaging in war we ought not to expect that it will be a mere paper war or a mere academic discussion.

We are not prepared to place men in the field. We are not prepared to fight with our Army. We are not prepared to do very much with our Navy; not because we do not have some Navy, but because there is little opportunity for the Navy to engage in actual war at this time. But there is one way in which we are prepared to engage in the war. There is only one way in which to-day we can do more than make our war an academic discussion, and the only way left to us is to help finance those nations who are fighting our enemy. [Applause.] This bill will authorize the loan to them of $3,000,000,000. I doubt not that before a year has passed that sum will be more than doubled; but let us hope that by advancing our credit and loaning our money we may be able thus to end the war. I think it is our highest duty, in the making of war, to give aid to those who are fighting the enemy against whom we have declared war, and I only hope and pray that the aid thus given may be effectual enough to end the war before we send our boys to the trenches. [Applause.]

Mr. GARDNER. Mr. Chairman, I agree with the gentleman from New York (Mr. Fitzgerald) in his opposition to the Towner amendment. I do not agree with him as to the causes for which we are fighting. Neither does his President agree with him. I do not agree that the United States has gone to war merely to enforce its rights. I admit, of course, that Germany's submarine warfare has been the match which has lighted the conflagration in this country; but fundamentally the American people are actuated by a purpose even higher than the defense of our rights upon the high seas. The historians of the next generation will see with clearer eyes than ours. I venture the prediction that the future's broad survey of present-day American thought will show that the public opinion in this country which supports armed intervention in the affairs of Europe is based on a conviction that the Entente Allies are fighting for the rights of man and against a system of government which has become intolerable. Autocracy and democracy are engaged in a death struggle. We have taken up the sword on the side of democracy. It is high time for us to do so. Americans can not any longer permit other nations to bear the exclusive burden of a war for liberty.

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(P. 670) Mr. MADDEN. Mr. Chairman, I am sorry to disagree with my friend from Pennsylvania (Mr. Moore). When he states that we are loaning this money to European nations to defend their interests in the war in which they are engaged, I think he stretches the case beyond the facts. We have already declared war, and we are not prepared to begin to fight the war we have declared. If we can find somebody else to fight the war for us with our money, we ought not to hesitate to grant them the credit which they want and must have. [Applause.]

There is no way to win this war except by men and money. We are not prepared to furnish the men to-day, and somebody else is prepared to furnish the men, if we furnish the money. I do not agree with the statement that we are furnishing this money for somebody else to wage war on their own account, but we are doing our part to wage the war in which we are engaged is the contention I make.

Mr. MILLER of Minnesota. Mr. Chairman, will the gentleman yield?

Mr. MADDEN. Yes.

Mr. MILLER of Minnesota. Do I understand the gentleman to mean that these loans we are going to make are not to be repaid?

Mr. MADDEN. I would not care whether they were repaid or not. We are starting out to win a victory, as I understand it, to maintain American rights; and if we can maintain American rights by furnishing money to somebody willing to fight our battles until we are prepared to fight those battles for ourselves, we ought to do it. We ought to begin the war upon which we have entered now, to-day, not to-morrow. We ought not to wait until we have enlisted an army that we can send over there. It will be a year before we can do that; but if we send our money to operate the armies that are already in the field, then we shall have done the thing that the American people are looking forward to us to do as their representatives.

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Mr. RAINEY. Mr. Chairman, we are engaged in war with Germany, and we are strengthening, or arranging to strengthen, the credit of those nations engaged in war with Germany. We are not making this loan for the purpose of making an investment of our funds. We are making this loan in order to further our interests primarily in this World War, and from that moment when the Congress of the United States declared that a state of war existed between this country and Germany every blow struck at Germany, by any of her enemies, was struck also in our interest, because we have entered this war for the declared purpose of bringing it to a speedy conclusion, not for the purpose of territorial aggrandizement, not for the purpose of claiming for ourselves at the close of the war extravagant war indemnities. * * *

(P. 676) Mr. MANN. Mr. Chairman, I doubt whether I ought to again obtrude myself upon the House. We are about to authorize the borrowing of $8,000,000,000—very close to $8,000,000,000 I think it totals—of which close to $6,000,000,000 will be in the form of bonds. There may be gentlemen in the House who know a good deal about the issuance of bonds to be subscribed by the public, but it is very certain there is no one in the House who knows very much about the issuance of five or six billion dollars of bonds to be subscribed by the public. The total amount of the indebtedness we authorized is, I believe, about equal to or more than half the amount of deposits in all of the national banks of the country combined. Those who imagine that it will be an easy matter to float five or six billion dollars of bonds may have another guess coming. Even if they be subscribed for, the payment of them will be a matter of great and grave difficulty without unsettling the rest of the credits in the country. If I were in control of the issuance of these bonds, the first thing that I would want to do would be to call in and obtain the advice of men who have been engaged in that business, and, although I have not any particular love for some of the great financiers of the country, I think one of the men whose advice I would ask would be Mr. J. Pierpont Morgan, and also the National City Bank group and other men engaged in the floating of bonds by municipal corporations, railroad corporations, public-utility corporations, and people who are engaged in the selling of bonds throughout the country, in order to obtain advice as to the terms upon which these bonds are most likely to be subscribed for. * * *

Mr. CANNON. Mr. Chairman, I agree substantially with what the gentleman from New York (Mr. Fitzgerald) stated earlier in the day, when he addressed the committee, and also with what my colleague (Mr. Mann) stated who followed him. I do not know that I can make any suggestions that will inform this committee. I think you have got to give the President, who is primarily responsible in this matter, some latitude. I do not know that I would curtail it; I am inclined to think that I would not. There are certain amendments that have been agreed to back and forth which I think are wise. I have not been in the House all of the time while consideration of this bill has been going on in committee. Other duties in connection with the business of the House have required my presence elsewhere.

I think this is a loan, not a gift. We are not in a giving business by the billions or the three billions of dollars. Does anyone suppose that we would have declared war against Germany if she had not blown up our ships without notice? The war was commenced by Germany upon the high seas against us. We properly declared war against Germany. That is as far as it has gone. Austria is an ally of Germany, Turkey is an ally of Germany, and also Bulgaria. We have not delcared war against those countries, and whether we will or not remains to be seen later on; but the President so far, as I recollect, and I believe I am correct, has not even given passports to the diplomatic representatives of those countries. * * *

(Pp. 677–678) Mr. GRAHAM of Pennsylvania. Now, Mr. Chairman, we ought to be ready to vote upon this question. It has been thoroughly and fully discussed, and I am sure that every man in this Chamber has made up his mind as to what form his vote will take. But before concluding what I have to say I would like to call attention to what the gentleman from Virginia (Mr. Montague) advocated in such eloquent terms—our relations to France. I cordially agree with the thought, and wish it were practicable to put an amendment in this bill so that we might at this time, when the situation is so exactly analogous to what it was in the Revolutionary period, say to France, "We will make you a loan, the interest upon that loan shall be remitted, and that loan itself shall be payable at your pleasure."

True, France was fighting England in those days; but we are fighting Germany. True, she loaned us money without interest. She gave us men, she gave us the immortal La Fayette to help Washington in the dark hours of the American Revolution, and it would be but a small thing for us now to say, and show that the old remark is without truth, that "republics are ungrateful"; to show to the world that America with her higher ideals is prepared to set a new standard of action among the nations of the earth.

I am going to vote also with much regret against the amendment offered by my colleague from my own State. I do not believe that this is the place to put terms upon this loan or say in what fashion it shall be issued. I cordially concur in the remarks of the Republican leader (Mr. Mann) in all that he said upon that question, and in the unwisdom of attempting in the legislative halls to govern and regulate a purely financial matter that requires conference, advice, the best light that can be had which must finally be shaped up according to the facts and circumstances as they will then appear for the making of this great loan, this great demand upon the American people. I believe in my heart of hearts this loan will be taken and fully subscribed by our people. * * *

Mr. HUDDLESTON. Mr. Chairman, what will be the economic effect in this country of the adoption of this bill? I want to try to give some sort of an answer to that very important question.

First, there are vast amounts of British, French, and Russian securities held here now. They range in value from 50 cents to about 90 cents on the dollar at this time. With this immense loan made to the Entente the value of those securities will be greatly enhanced, so that some of the worthy gentlemen and patriots who have been so loudly clamoring for war will have some hundreds of millions of dollars of unearned profits transferred into their pockets. * * *

I shall vote for this bond issue as a war measure and as a matter of stern necessity only, but I believe that we owe our first duty to our own people. * * *

Mr. SWITZER. Mr. Chairman, I cannot agree entirely with the gentleman from Alabama (Mr. Huddleston). We have declared that a state of war exists between our country and Germany. Shall we fail, shall be make no effort to bring this war to a speedy close, to crush our enemy, because, perchance, bonds in the hands of Morgan & Co. or other holders in this country may appreciate in value?

Is it not our intention to crush Germany, to bring her to terms, if we raise and equip a large army? If we can bring about the same thing by the extension of credits and the use of money, why hesitate and allow the bugbear that somebody will profit out of the transaction to deter you? There is no way, there has been no way yet devised by man, to keep the infamous from grafting in time of such great crisis. * * *

(P. 679) Mr. HOWARD. Mr. Chairman and gentlemen of the committee, I agree with what has practically been said by Members on both sides of the Chamber who have spoken on the question of leaving the entire disposition of this issue of bonds to the executive branch of the Government. * * *

We have got to win this war. It does not make any difference what sacrifices we have to make. It is serious business; it is the most serious situation this Nation ever confronted, and I pray to God that it will never confront a more serious one; and if it takes 10,000,000 men or $50,000,000,000, weighing the consequences to posterity and our free institutions, this war will be won. The United States has got to manfully perform its part of the duty. Now, as has been said, it will be at least a year, or ought to be a year, before we can put a single volunteer or a selective conscriptive soldier into the trenches in Europe, because it would be nothing but governmental murder to put untrained and green men behind our guns in the trenches against seasoned trained soldiers. Therefore the only thing that we can do, whether we get a dollar of this money back or not, is not to be weighed at this time; the consequences of this conflict on this Nation is what we should weigh now and the most expeditious and practical way that we can help in Europe. * * *

(There was no exhibit marked "No. 3018")

EXHIBIT No. 3019

2315 MASSACHUSETTS AVENUE,
Washington, D. C., November 1st, 1917.

Hon. W. G. McADOO,
Secretary to the Treasury,
Washington.

MY DEAR MR. SECRETARY: I beg to acknowledge and thank you for your letter of the 31st October informing me that my Government may rely upon advances being made to it by the U. S. Treasury, under conditions required by the statute of 24th September 1917, to the amount of $435,000,000 up to the 1st January 1918.

In regard to the reimbursement to the British Government of sums expended on ships which the U. S. Government is to acquire, I fully agree that the question of the application of these funds should be discussed with you. It is certainly not the desire of my Government to borrow more than is absolutely necessary to meet its essential requirements in this country. I should, however, point out that from the first it has been assumed by my Government that any moneys reimbursed in respect of its expenditure on ships would be applicable to a special purpose, viz: the reduction of the call loan or overdraft which originally stood at close on $400,000,000, and I have always understood that the matter was discussed with you on this basis.

I am, my dear Mr. Secretary,
Yours very sincerely,

[s.] READING.

[Pencilled: Overdraft demand loans.]

("EXHIBIT No. 3020" appears in text on p. 9149.)

("EXHIBIT No. 3021" appears in text on p. 9150.)

EXHIBIT No. 3022

[Copy of Cable dispatched to Morgan, Grenfell & Co., London]

J. P. MORGAN & COMPANY,
CABLE DEPT.,
New York, November 16, 1917.

55633. For T. W. Lamont. 44748. 44774. Agree with you in belief it would be impossible to make arrangements now that would be acceptable or even if accepted would be wise in general situation. Will discuss the matter with all partners on their return Monday.

Thomas Cochran appearing before Federal Reserve Board, Washington, endeavoring to find way make Treasury bills discountable. Expect their decision Tuesday but outlook unfavorable.

E. R. Stettinius has engagement meet early next week Treasurer du Pont. Will cable what can be done.

Liberty 4% bonds closed 98.76, despite strong support. Liberty 3½% bonds 99.

MORGANCO.

WPH.

EXHIBIT No. 3023

102.1/397
JS

Blue

(*Telegram received from London, dated Nov. 18, 1917. Recd. 11:50 p. m.*)

SECRETARY OF STATE,
Washington, D. C.:

November 18, 7 p. m.

Number six. For Secretary of the Treasury. Andrews, former charge d'affaires at Jassy, is now in London having left Jassy. While he believes Roumania loyal to the Allies does not think either her army or Russian Army in Roumania of any military importance. Believes amount of food called for in telegrams from Vopicka and Anderson higher than necessary and that wheat supply probably sufficient until next March. Immediate needs are clothing and shoes. Advises to send with these trustworthy men having funds to insure movement of trains. Clothing and shoes costing about seven million dollars obtainable here. If we purchase these, British plan is to ship these and other Roumanian and Russian supplies which will remain under British control until unloaded at Russian port so that they could be brought back, if at the time of delivery Russian conditions so unsettled as to render shipment across Russia too hazardous. Goods to be of service this winter must be shipped promptly. As a humanitarian, rather than strictly military measure, but with some chance of benefit to the prosecution of the war, we may wisely join, but sending these goods forward, limiting present commitment to seven millions to be expended here as above stated and to five millions arranged through Russia before my departure subsequently if the situation renders it possible and desirable. French and British indicate their willingness to join us in helping to a monthly amount of four millions each for purchase of foodstuffs in Russia and also to continue amounts of material from their own countries. Representations made here indicate Roumanian Minister at Paris could sign obligations. If you approve I think legal situation can be kept in line by having seven million Roumanian obligation received by me for you with authorization from Roumanian Minister cabled you to place proceeds of loan as a dollar credit to Great Britain whose Government will then forward the goods above described.

Political conditions in France caused delay in departure of mission; now fixed for Thursday. I have communicated with Tardieu who is attending to appointment of French delegates.

In an interview today with Bonar Law and Reading, former states that there will be no difficulty in agreeing to higher rates of interest than now paid. States they are charging France and Italy five per cent, but with indication that rate will be made permanently as high as that which they pay to their public on long term bonds, this rate now being, net, about five and a half per cent. I urged importance of prompt action by British Government in obtaining loans in neutral countries with the result that special men are to be sent on this business at an early date. Learn from the British Government and from Lamont that renewal of loan of about ninety-five millions maturing February first impracticable because it is represented by widely scattered obligations in small amounts, nor could a new loan be placed at that time unless market conditions are very much changed for the better. Considering these statements have urged Chancellor of the Exchequer to revise and, if possible, reduce other needs for that period. British delegates to Council will take all this in consideration at an early date. If, on later presentation of urgent need, you should decide to advance money for meeting the above maturities, I think there will be no difficulty in obtaining special obligation from the British Government secured by collateral now protecting it, thus laying foundations for direct British loan to our public when market conditions permit.

French and British authorities desire to know whether State Department took action on letter to Secretary of State dated October 18.

CROSBY.

EXHIBIT No. 3024

(Page 581)

(*The Delegate to the Inter-Allied Council* (*Crosby*) *to the Secretary of State*)

[Telegram]

LONDON, *November 21, 1917—10 a. m.*
[Received 1:34 p. m.]

No. 8, for Secretary of the Treasury. Referring yours November 15.

(1) Referring Canadian purchases. Recommend that small and urgent purchases may be made without reference to council here but their general program should be submitted if only to determine place in priority scale and further because of highly probable relation between Canadian and British finance. If, however, Canadians willing to accept foot of priority list see no great objection to letting them enter purchasing agreement without reference to council.

(2) Referring to moneys reimbursed on account of shipping construction. Treasury here would like assurance that it may be all applied in one way or another to payment of their outstanding cash obligations including bills held by du Ponts and other manufacturers. Have proposed that best disposition would be to apply to $94,000,000 notes maturing February which are scattered as previously indicated. Lamont naturally expresses preference that all available cash should be applied to reduction of overdraft but I consider we must deal with British Government solely on this subject. There will be no difficulty in having subrogation to collateral held against obligations thus met. Please advise amount of money and probable time of payment to British Government by Shipping Board considering possible changes in situation if Italy and France whose requirements for next year still unknown, possibly very large. Recommend that if application of these funds to Morgan overdraft insisted upon they must be put on notice that February maturity cannot be met unless large reductions in other programs be accomplished.

(3) Referring to Greek situation. Do not consider necessary to send special financial American agent to Greece. Information here that English and French experts are very capable master the situation; so urgent that probably no delay admissible such as would be invalued (incurred?) in getting American special agent there. It would be well, however, to ask our Minister to be associated with the French and English experts in financial investigations. During an interview with Venizelos yesterday he urged immediate help particularly in the way of food. Consider French and British absolutely bound to aid Greece whose situation very bad but do not believe we should make commitment for money until after conference in Paris with French authorities. Venizelos will be there. It seems probable that 200,000 tons Indian wheat may be allocated to Greek consumption. This could be financed by Great Britain. Future military movements not yet decided. Venizelos likely to be terribly disappointed, perhaps to the extent of complete discomfiture, if British and French troops are more or less withdrawn as is now anticipated but not known to him. This point entirely confidential.

(4) Concerning Japanese financial assistance. Treasury here considers not available nor particularly desirable. No war purchases being made by Allies in Japan save for Russia. Financial relations between Russia and Japan may present serious situations. No present action indicated.

(5) Concerning Belgium. Think proposed increase justifiable but recommend that it be made now for not more than two months in order to require further Belgian demands to be coordinated with other demands upon the Treasury.

(6) Referring to Serbia. Recommend application of Minister be granted.

(7) Concerning Roumanian Minister. Understand he is awaiting my arrival in Paris.

EXHIBIT No. 3025

(Page 583)

(The delegate to the Inter-Allied Council (Crosby) to the Secretary of State)

[Telegram]

LONDON, *November 21, 1917*
[Received November 22, 2:40 a. m.]

No. 9 for Secretary of Treasury.

Food Administration here has been asked by our Food Administration to guarantee purchase of hog products up to May 1919 on certain basis of amount and sliding scale of price varying with price of corn. General scheme seems good but Treasury Department here estimates British proportion may rise high as $430,000,000 and declines to make commitment until assured of funds from us to meet their guarantee if made. Have advised them you probably could not guarantee beyond end of war for any purpose whatever and that large amounts like this should not be passed upon until all other large purchases for ensuing six or twleve months shall have been indicated by each of borrowing governments. While fully recognizing great importance of this matter as part of food supply of Allies, I hope it will be possible to delay action insofar as it rests upon obtaining guarantees from governments here which means only corresponding hasty action on part of Treasury in assuring long time credits for large amounts. Before having totals for consideration would like to know how soon it is desired to give guarantee to American farmers so as to present whole matter of anticipated expenditures with this included.

Referring to ship construction funds returnable to British Government, understand from Treasury here that they prefer application of all of it to overdraft. Have called attention to fact that this leaves their obligations with du Pont and others and their February maturities entirely unprotected. They, however, seem to urge whole amount be applied to Morgan account. Have notified them I would cable you facts. Am uncertain how far you may feel committed to Morgan account by virtue of conversation in your office with Lamont some months ago. Think at least du Pont notes $13,000,000 maturing December 15, should be cared for out of these funds unless assurance can be had of renewal of this obligation and of $17,800,000 due March 15. Respecting Italian application for loan. After conference with Chancellor here recommend that $7,500,000 per month for November and December be established as free credit available to Italian Government for any purposes, including support of lire exchange in New York, this to be in addition to $230,000,000 credit already established. Any other program for increase to await further study in France and by Inter-Ally Council. Great Britain is lending Italy £8,000,000 per month for general purposes and £1,500,000 per month for free credit similar to that above recommended. Please wire me your decision on this recommendation to Paris.

CROSBY.

EXHIBIT No. 3026

TREASURY DEPARTMENT,
Washington, November 23, 1917.

Memorandum re British Maturities on February 1st on $95,000,000.

Mr. Crosby first suggests that in case it should be decided to furnish the funds for meeting these maturities, the corresponding collateral should be subrogated and that the British Government reduce its needs for that period. Later, he suggests that the reimbursements to the British Government by the Shipping

Board should be applied for this purpose and for taking up $13,000,000 in notes to du Pont maturing December 15th and $17,800,000 maturing March 15th. Later, he advises that the British Treasury desires to apply such funds for the Morgan overdraft. I notice from one of Lord Reading's letters last month to the Department that he understood that the negotiations for taking over the shipping contracts were carried on with the understanding that the British Government would apply the reimbursements to the Morgan overdraft.

Belgium.—Mr. Crosby recommends that the additional $1,500,000 for Belgian Relief be granted, but for not more than 2 months in order to require further Belgian demands to be coordinated with other demands upon the Treasury.

Serbia.—Mr. Crosby recommends that the application of the Serbian Minister be granted.

Italy.—Mr. Crosby recommends that an additional credit and advance be granted to Italy for $7,500,000 for this month and an equal amount for next month, with a free credit to be used by Italy for pressing needs which may arise, including the support of the lire exchange. He recommends that any further increase in credits to Italy await consideration of the Inter-Allied Council.

("EXHIBIT NO. 3027" appears in text on p. 9155.)

EXHIBIT NO. 3028

(Page 587)

(*The Secretary of State to the Ambassador in France* (*Sharp*))

[Telegram]

WASHINGTON, *December 4, 1917—7 p. m.*

2916. For Crosby from McAdoo.

Treasury 19. Willing that funds paid British Government by Shipping Board should be applied to Morgan overdraft but insist upon subrogation in respect to proportionate value of selected collateral. Have in mind selecting Argentine collateral with a view to use in Argentina to relieve exchange situation. With reference to du Pont notes and collateral notes maturing February 1, prefer not to interfere or make suggestions as to these matters which should be taken care of by British Government and their bankers independently.

LANSING.

EXHIBIT NO. 3029

102.1/499 Plain & Bins

(*Telegram received from Paris, dated January 10, 1918. Rec'd 11th, 1:58 p. m.*)

SECRETARY OF STATE,
Washington.

January 10. For Secretary of Treasury, number 39. Tabulation of elaborate figures of demands for January and for first quarter of year indicate about same average for three months as proposed for January. Monthly average of totals for three months as follows: For purchases in United States including cotton for Great Britain four hundred eighty-two millions; France four hundred fifty-three millions; Italy three hundred sixty-two millions; average per month for all four hundred thirty-two millions. Specifically for purchases in other countries: Italy, eighteen millions, average per month six millions free credits or for purchasing exchange excluding cotton bills for British; Great Britain three hundred forty-three millions; France thirty-nine millions; Italy one-twenty millions; total five hundred two millions; Average per month one hundred sixty-seven millions; grand total: Great Britain, eight hundred twenty-five millions; France four hundred ninety-two millions; Italy five hundred millions; total one billion eight hundred seventeen millions; average six hundred five millions.

Of requirements of Italy for January sixty-five millions; for orders placed and forty-three millions for orders to be placed. Requirements of France for January entirely for orders placed. Of requirements of Great Britain for January one hundred twenty millions for orders placed and eight millions for orders to be placed. You will thus see that substantial part of January allotments will probably go over to subsequent months.

Balance of which is not credits to Italy as reported by you will be substantially required for Italian wheat purchases including January. British have not yet fully reported all outstanding orders but will be urged to get a list of some in order to place all Governments as soon as possible on the same basis namely that orders shall not be placed except within limits of credits assured. Sixty millions asked for by Italy for free credits for January are intended to be used chiefly for payment of accumulated indebtedness by various Italian private concerns acting for Italian Government in placing orders many months ago. Exact situation of these contracts whether expressed for payment in lire or dollars not yet known. Am arranging for investigation by Cravath or Byrne now both in Rome to clear this matter satisfactorily. Nitti extremely anxious to get whole foreign account of his government paid up in order to insure success of rigorous policy concerning exchange operations in future which will be absolutely controlled by a commission which he has established in Rome and which will prevent hereafter any foreign commerce whatever except that approved by this commission.

Italy's January figure sixty-five million for orders already placed includes thirty millions for cereals returnable to wheat executive authorities and for which money already available. Consequently this sum if recommendation made below be adopted might be held for covering such portions of accounts just above referred to as investigation may justify but would not otherwise be needed.

I have consistently adhered to the position that our aggregate advances to all European Allies cannot exceed five hunded millions per month. Bearing this in mind advise that pending further study I be authorized to suggest provisional allotments for January as follows: Great Britain, two hundred twenty-five millions; France, one hundred fifty-two millions; and Italy, tentative amount of one hundred millions. This leaves twenty-three millions for smaller powers. Within these limits application of funds to particular purposes can for the present best be settled in Washington with such recommendation as may go to you after my return to London next day or two. Question of priorities in foodstuffs scarcely arises since agreements have been reached that insure through wheat executive and meat executive distributions satisfactory to allies. Priorities in respect munition requirements present extremely delicate and difficult questions concerning which Versailles Military Council is not yet prepared to act, but in course of time I hope this can be accomplished in manner proposed by us from beginning, that is that priorities should be indicated here as between European Allies subject to final determination in Washington as between their requirements and ours. I have urged establishment here of organization which will see that stocks belonging to the independent armies and which in their nature are capable of general usage shall be reported so as to prevent one army from calling in great haste at great expense for reserve stocks which perhaps may be in hands of adjacent army. Thus far it appears that each keeps its own independent reserves. Often the total of these reserves larger than would be required if they were watched by one organization. Principle of this fully accepted by council and will be presented to respective governments by the delegates. French Munition Minister also expresses himself strongly in favor of an effort to diminish number of different types of war material believing that much economy will result from this effort. Obviously question very grave and will require action of Versailles Military Council, the efficiency of which is not yet established.

In response repeated inquiries from British Treasury, have said am not authorized offer any encouragement except ship money that money will be provided for overdrafts including Treasury bills and February first maturity. In response to requests for suggestions as to how these obligations to be met, have said it seems to me to be a problem which must be worked out by British Government and their bankers with such cooperation as the United States Treasury can give. Have suggested that British Government should, if necessary, urge bankers to release them from promise to apply ship money to overdrafts so that it can be used for February first maturity. Bonar Law suggests that small amount of gold roughly estimated by him now at five million dollars can be brought down from Canada to aid in February first settlement. Am also informed that Danish loan to British of twenty-five million dollars now available in New York in part and balance by installments. Chancellor has expressed hope that inasmuch as pledged collateral even at present market values exceeds overdraft Treasury bills and February maturity combined, some way can be worked out whereby with aid of ship money, Danish loan, and Canadian gold, a new secured loan may be established. Have said that this can only be done by negotiations at New York and Washington and if additional cash advances required from Treasury it would probably involve diminution on January and February loans for other purposes.

Condition of accounts between French Government and our Army here deplorable. Have just succeeded in having Army people establish single office which will receive all French claims and have today had interview with the Minister of Finance urging that their claim be now promptly submitted. Our people charge French with delay; French charge our people with delay. Hope to get some large amounts put through very promptly in order to cover cotton purchases. Extraordinarily difficult to have importance of these matters understood, but progress is being made.—CROSBY.

SHARP.

HG.

EXHIBIT NO. 3030

[Handwritten]

TREASURY CHAMBERS,
Whitehall, S. W. 1.

Sir H. Lever telegraphed, 19 Jan., 1918.

In all our discussions the understanding has been that this 94 million dollars (to meet Feb. maturities) will be a first instalment of a larger amount and that ultimately whole of overdraft including ripe bills might possibly be paid off. Secretary of the Treasury is not willing to make a prior commitment as to further advances and question as to whether any will be made depends to a considerable extent (a) on general banking situation, and (b) on political reception of the advance now under consideration.

[In pencil: Above is Treasury's latest information on the scope of the new loan. P. D. C.]

EXHIBIT NO. 3031

[Handwritten letter]

22 JANUARY 1918.

DEAR CRAVATH: Lever's telegrams are down at the House of Commons with the Chancellor of the Exchequer; but I have revived my memory of them by telephone. In putting the figure at $150,000,000 I was making a confusion. I understand that according to the latest proposals we are to receive on Feb. 1: (1) ship money—circa $86,000,000; (2) a special advance variously stated at $100,000,000 and $94,000,000.

I suspect that the correct figure for (2) may be the exact amount required to meet the Feby. maturities, i. e. $92,000,000; the intention being that the special advance should cover the maturity of the one year notes, leaving the ship money free for reduction of the overdraft. In any event you may take it that the special advance contemplated is round about $m90—$m100.

The exchange we have purchased in New York has been:

December	$132, 044, 000
January 1–21	65, 234, 000

Sincerely yours,

[s.] J. M. KEYNES.

[In pencil: Feby. 1st maturity].

EXHIBIT NO. 3032

16A2 220A

J. P. MORGAN & Co.,
CABLE DEPARTMENT,
New York, Jan. 19, 1918.

[Copy of cable despatched 6:00 p. m. to Morgan, Grenfell & Co. London]

61200. Denkstein. For E. C. Grenfell. Since T. W. Lamont's return from abroad, he and A. M. Anderson have spent much time in Washington in following up with U. S. Treasury the matter of British call loan and February 1st maturities, so fully discussed in London. Federal Treasury appreciates bad effect upon American money market of having this call loan continue indefinitely, and it has therefore been frankly desirous of arranging means to effect reduction and eventual cancellation of loan.

We have now agreed to suggestion made by the Treasury under which we purchase next week $150,000,000 U. S. Treasury 4% certificates due June 25th next, proceeds of $86,000,000 of which will be turned over to British Treasury to be applied to that extent in reduction of its call loan. In order to carry out this plan we and our associates are obliged as you can see to purchase an amount of certificates greatly in excess of amount to be applied upon the call loan. This is the consideration which the Federal Treasury receives for lending its cooperation to the plan. This proposal is, in one way, rather a hardship upon participants in the loan, and in order to keep them from any actual money loss between now and June 25th, we are telling them that in the event that the Federal Reserve bank raises its present 15-day rate so that allowing for taxes a loss would result to the banks in case they wish to borrow upon these certificates, then, and in that event, we will lend to the banks upon these certificates, either for 15 days or some other period, at a rate that will show them no loss. In such event we should of course expect to be reimbursed by British Treasury for any loss which we might thus incur between our rate and rate at which we could in turn borrow for a similar period, but our judgment is this is almost an academic question, for it seems to us that Federal Reserve bank is more likely to lower than to raise its discount rate on this type of security, and further, even in latter alternative, it is very unlikely that banks would ask us to make loans in question. In order, however, to put the whole deal through, in which our firm is taking a heavy participation, it is necessary for us to offer to some of the larger institutions some proposition as described. We have no doubt British Treasury will realize that in any event we will handle matter as discretely as possible, and further, will understand the vital necessity of taking this opportunity to begin to resolve the call loan in cooperation with Federal Treasury.

Federal Treasury has been in conference with British Treasury authorities here in regard to plans to utilizing to best possible mutual advantage such British-owned securities now held in this country, and free from pledge subject of course to all conditions under which securities are borrowed from owners and to any engagements British Government has undertaken. Discussion of this matter has not been within our province, but we are convinced that all Federal Treasury desires is generous cooperation on part of British Treasury in working out method for handling increasingly heavy Allied finance demands here, including those which result from purchases in neutral markets. You will not misunderstand us we are sure when we say that we are convinced that British Treasury can well afford to be very broad in its attitude on this point. Fortunately, relations between Sir Hardman Lever and Federal Treasury are on such basis that all such questions can be handled—we are convinced—without difficulty as they may arise.

Sir Hardman Lever is of course cabling the whole situation fully to Chancellor for his approval, but it is important that you should be in touch, and we would suggest that you present the gist of this message to the Treasury as representing our views.—T. W. LAMONT.

MORGANCO.

EXHIBIT NO. 3033

THE SECRETARY OF THE TREASURY,
Washington, January 22, 1918.

The Honorable the SECRETARY OF STATE.

DEAR MR. SECRETARY: May I ask that you have the following urgent telegram sent to Assistant Secretary Crosby in London:

"Treasury number 59. I have indicated my readiness to assent to the use, out of our advances to the British Government, of a sum of about ninety three million dollars required for the purpose of paying off the five and one half per cent secured notes maturing February first as well as my assent to the use of the ship money in retirement of the overdraft. In that connection, however, I have felt obliged to ask not only certain general assurances in respect to the use of the securities owned by the British Government but also specifically that the United States Treasury should be subrogated to the rights of the pledgees with respect to the collateral released in connection with the payment of the February first maturity and on account of the overdraft. As to the latter, I have understood from your cables that no objection would be raised. I have made it my personal request that my views as to the requirements of expediency in respect to this transaction be assented to. You are fully informed as to the reasons which make me most reluctant to assent to the retirement of this indebtedness and of the reasons of expediency which lead me to feel that some special sanction should be thrown around the transaction. I should be glad to have you indicate to the Chancellor of the Exchequer and to any others with whom you may have occasion to discuss the matter that the suggestions which I have made are based upon my judgment as to the best course to be pursued in the interests of the governments concerned."

Cordially yours,

[s.] W. G. McAdoo, *Secretary.*

Exhibit No. 3034

The Secretary of the Treasury,
Washington, January 23, 1918.

Dear Mr. President: You will recall that, in asking your approval of the establishment of a credit of $185,000,000 for Great Britain for the month of January, I indicated to you that the demands which had been made by Great Britain were for more than twice that amount; and that I delayed making any recommendation of a larger amount until I should be better able to inform you of what the actual requirements would be. For a variety of reasons, the principal of which, however, are the deficiency of tonnage and the order of the Fuel Administrator, the actual cash outgoings of the Government of Great Britain have been less than was anticipated, and I am glad to be able to say that a further credit of $65,000,000 for the month of January will, it appears, suffice.

At the same time I believe it wise to ask your approval of the establishment of a credit for Great Britain for the month of February in the sum of $210,000,000. Again I am obliged to say that I fear that this credit will be insufficient to carry the British Government through the month; by how much, however, I am not now in position to say.

In order that the actual cash requirements of the situation may be provided for for a reasonable period in advance, I recommend the establishment of an additional credit of $65,000,000 for Great Britain for the month of January, and the establishment of a credit for Great Britain for the month of February of $210,000,000.

In connection with these credits, I should call your attention to the fact that Great Britain has maturing on the 1st of February the unpaid balance, amounting to about $93,000,000, of an issue of one-year 5½% secured notes. I have been very reluctant to permit the repayment of this loan out of advances made by the United States, but I am satisfied that it could be refunded upon our markets in the existing situation only at a rate of interest so high and secured by so great an amount of collateral as would gravely impair the credit of Great Britain and the ability of the United States to carry through successfully its own financing. In connection with the refunding of this indebtedness, I am asking assurances with respect to the collateral securities held by the pledges and I am asking other collateral advantages for the United States which, in my judgment, make the transaction in every way a wise one.

Cordially yours,

[s.] W. G. McAdoo, *Secretary.*

The President,
The White House.

The White House,
24 January, 1918.

Approved.

[s.] Woodrow Wilson.

("Exhibit No. 3035" appears in text on p. 9166.)

("Exhibit No. 3036" appears in text on p. 9166.)

EXHIBIT No. 3037

[Typewritten note: Correct date probably Jan. 25, 1918. Senate Munitions Committee]

PLAZA HOTEL,
New York, January —, 1918.
[(In ink.) Received Jan 29]

DEAR MR. SECRETARY: Following upon the conversations which have recently taken place in regard to the capital liabilities of the British Government in the U. S. A. and the application by the British Treasury of the securities in its control in the U. S. A., I desire to put in writing certain facts and proposals with a view to a settlement of some of the financial problems which have arisen.

First, as regards the capital liabilities, the two matters which are immediately pressing are (a) the maturing on the 1st February 1918 of one-year secured notes of the British Government to a total of approximately $94,000,000, and (b) the need for effecting a substantial reduction in, and if possible for completely repaying, the British Government's overdraft or call loan which originally stood at close on $400,000,000. The amount now outstanding is approximately $310,000,000, included in this figure being three months British Treasury bills to an amount of about $90,000,000.

Second, as regards the securities controlled by the British Treasury in the United States, these consist of American and other securities which are either the absolute property of the British Treasury or have been deposited with the British Treasury, subject to certain conditions as to payment of compensation and eventual return to the depositors. Nearly the whole of these securities are at present pledged in this country as collateral, either for secured loans or for the overdraft above referred to. The British Treasury is, of course, at all times ready and anxious to co-operate with the U. S. Treasury in using all its resources in furtherance of the common cause. But its powers to deal with the securities under its control are at present very much restricted by the existing commitments above referred to.

Third, it appears to me to be germane to the subjects now under discussion to draw attention to the fact that since the date of the entry of the United States into the War, the dollar expenditure of the British Treasury on current outgoings in the United States up to the 30th November 1917 exceeded by approximately $400,000,000 the amounts received directly or indirectly by way of advances from the United States Treasury during that period. This excess of expenditure included an amount of approximately $160,000,000 spent on Russian account. In order to meet these outgoings, the British Treasury had to draw on all its available resources, and as you are aware the amount of gold imported into the United States by the British Treasury since April 1917 is about $290,000,000, of which some $226,000,000 was applied for ordinary current expenditure. The British Treasury had counted on being able to apply these resources to reducing its capital liabilities in the U. S. A., and it is only the excess expenditure on current outgoings which has prevented it from so doing.

In these circumstances, I desire now, on behalf of my Government, formally to request that the United States Treasury should consent to the application of $94,000,000 of its advances to the British Government, which my Government will use for extinguishing the liabilities maturing on February 1st, 1918.

I am authorized by my Government to say that in the event of such advance being made by the U. S. Treasury and applied in reduction of capital liabilities the British Government is willing to undertake that, subject to all previously existing liabilities, and insofar as not inconsistent with its existing pledges and undertakings,

(1) It will refrain, during the continuance of the war, from selling, pledging, or otherwise dealing in the U. S. A. with any securities owned by or deposited with the British Treasury, except with the approval of the Secretary of the Treasury of the U. S. A.; and

(2) The British Treasury agrees to co-operate with the Secretary of the Treasury of the United States in facilitating during the course of the war the issue of loans by or on behalf of the United States Government, by the use of such British-owned securities as may be owned or controlled by the British Treasury, subject to the limits of such control and to the requirements of the British Treasury in connection with its own prospective financial operations.

I am, dear Mr. Secretary,
Very truly yours,

/s./ S. HARDMAN LEVER.

(There was no exhibit marked "No. 3038")

EXHIBIT No. 3039

JANUARY 26, 1918.

DEAR MR. SECRETARY: May I ask that you have the following cable message sent as expeditiously as possible to Mr. Crosby in London:

Treasury number 63, supplementing Treasury number 59. Informed today that British Government declines to subrogate United States to rights of pledges with respect to collateral released in connection with payment of February first maturity and on account of overdraft. British Government assents to request that during continuance of war it refrain from selling, pledging or otherwise dealing in United States with any securities owned by or deposited with British Treasury except with approval of Secretary of the Treasury. It is, of course, already in my power to compel this. In lieu of assurance desired that British Government will cooperate with me in lending, selling, or hypothecating such securities, whether in the United States or elsewhere, in aid of the financial requirements of the Government of the United States or of the Allies, the British Government proposes an assurance "to cooperate with the Secretary of the Treasury of the United States in facilitating during the course of the war the issue of loans with United States Government guaranty by the use of such British owned securities as may be owned or controlled by the British Treasury subject to limitation of such control and to requirements of British Treasury in connection with their own prospective financial operations."

As you know, I have been extremely reluctant to permit our advances to be used to pay off this old indebtedness. You are very familiar with my views in this connection. Nothing but the feeling that this loan could only be renewed, if at all, in our market upon terms so onerous as to reflect upon credit of British Government and to suggest a lack of willingness or ability on the part of the United States to support the British Government induced me to assent in principle to such use of our advances and then only if the British Treasury were willing to place the United States in respect to the collateral in a position approximately as advantageous as it would gladly have placed American bankers in if any could have been found willing to undertake this loan upon any terms. I do not want to make this loan; I cannot make it unless the British Treasury can see its way to meet my views in the matter. I had made arrangements with the British bankers here which would have enabled me to make the advance necessary to meet the February 1st maturity as well as to pay the ship money without infringing upon $500,000,000 a month for Allies for current purposes. These arrangements fail if British Government finds itself unable to meet my views. The situation is very acute because of the near approach of February 1st and, while I shall, of course, do what may be necessary to prevent an actual default on that date, failing their assent to my suggestion, I shall be obliged to insist that any sums advanced for the purpose of meeting the February 1st maturity be deducted from amounts otherwise available for current purposes which means, of course, that the British Treasury will have to issue a secured loan on our market within a week or two provided I should be willing to permit such an offering. British representatives here offer no encouragement as to bringing in gold from Canada and state that the Danish loan will not be available until April or thereabouts, the part of it already rendered available having been heretofore applied in reductions of the overdraft or of British Treasury bills here. Though the most serious difficulty in this transaction is utter refusal of British Treasury to subrogate in respect to the collateral whether in connection with February 1st maturity or payment on account of overdraft, I am also much disconcerted by the very restricted assurance of cooperation above quoted with respect to the use of securities here and in neutral markets. I have no reason to suppose that there will be for some time to come a need of collateral security for loans issued with the United States Government's guaranty. You have shared my disappointment at the apparent failure of the British and French Governments to realize the importance of settling their balances in neutral countries by placing securities in such countries. While our loans to Great Britain so greatly exceed the amount of her purchases here I feel justified in expecting hearty cooperation in lending, selling and hypothecating securities in the United States or elsewhere in aid of the financial requirements of the Government of the United States or of the Allies. I hope that you will take this matter up with the Chancellor of the Exchequer in your own graceful way and explain to him the limitations of our statutes, both express and implied, and the reasons, with which you are fully familiar, which made me desirous, if in any way possible, to avoid retirement out of our advances of indebtedness now in question. Bear in mind that although the ship money is the result of the purchase of ships belonging to Great Britain this money should properly be applied to cover adverse balances in neutral markets rather than to retirement of pre-existing indebtedness. On that account as well as on account of our own political and economic situation feel obliged to request subrogation in respect to the collateral released from proceeds of the ship money as well as in respect to the collateral released in connection with the February 1st maturity. It is of the utmost importance that this matter receive full, patient, and comprehending consideration from the highest authorities in Great Britain since it seems inevitable that without a satisfactory understanding on this subject the British Treasury will be obliged to offer upon the American market a new secured loan under conditions most unfavorable to the Government and with possibilities of failure.

Cordially yours,

(Signed) WM. G. MCADOO, *Secretary.*

The HONORABLE THE SECRETARY OF STATE.

("EXHIBIT No. 3040" appears in text on p. 9169.)

("EXHIBIT No. 3041" appears in text on p. 9170.)

("EXHIBIT No. 3042" appears in text on p. 9170.)

EXHIBIT No. 3043

[Handwritten]

[Copy]

JANY. 29TH, 1918.

DDDSSS Paris 36944 325 30 1h 25.
Extreme urgence.

BONAR LAW,
Chancellor of Exchequer,
12 Downing Street, London.

January twentyninth. Have just learned by wire from Gravath of cable addressed to me by Secretary McAdoo expressing surprise and regret that British collateral now in New York is not made available to protect a loan arranged in form, the particulars of which are not known to me, but which represents balance due by your Government on February, first maturity and Morgan overdraft after applying approximately ninety millions ship money. If the conditions of pledge of collateral are objectionable and if that is the reason for refusal of collateral I suggest that transaction might be put through to save the situation on February first, with proposal on your part that these conditions might be revised after that date even though this would not bind those to whom the pledge is made. It is not improbable that if the conditions are judged by Secretary McAdoo as being harsh that modification might be obtained later. It would be most unfortunate if the transaction which has presumably been negotiated between your representatives, those of the Treasury of the United States, and New York bankers should fail, in which case at the last moment you might think it necessary to appeal to our Treasury to meet the one hundred million dollars due on February first. Being unaware of the details I am telegraphing somewhat in the dark. Inspired by a sense of the seriousness of the situation that would develop through any failure to carry out understandings tentatively reached in New York and Washington as it was impossible for me to reach London in time to discuss matter with you before action must be taken. Gravath consulted Lord Reading who has doubtless consulted you. I should very much appreciate a telegram concerning this subject addressed to me tomorrow, Wednesday, at the office of the Council, number two Rue Saint Florentin, and in duplicate to the Hotel Meurice.

CROSBY.

[In pencil: Crosby to Chancellor.]

EXHIBIT No. 3044

29TH JAN. 1918.

The VISCOUNT READING, G. C. B., K. D. V. O.,
32 Curzon Street, W.

DEAR LORD READING: The doctor insists upon my going into a nursing home to prevent my acute laryngitis, which is rendering me speechless, from developing into something worse. I fear I shall not be out before your departure. I hope Crosby will be here tomorrow. I have wired him about the long cable which came last evening, and of which I sent you a copy.

What I hope the Chancellor of the Exchequer will do is this: Promptly cable Secretary McAdoo that he acquiesces in such arrangements as Secretary McAdoo regards proper, for providing for the February first maturity, and the so-called over-draft (which includes Treasury bills) but, expressing an earnest hope that some suitable arrangements will be made, by which, hereafter, the loan can be refinanced and the surplus collateral made available for other purposes of the British Government. In case it should develop, at any time, that changed financial conditions would render such a transaction possible.

Any letters sent to me at Claridge's Hotel will be received by my secretary, and promptly taken to me at 19 Manchester Street, Manchester Square, where I shall be for the next few days.

Very sincerely yours,

[s] PAUL D. CRAVATH.

("EXHIBIT No. 3045" appears in text on p. 9172.)

EXHIBIT No. 3046

JANUARY 30, 1918.

MY DEAR SIR HARDMAN: I beg to acknowledge receipt of your letter of January 29th, addressed to the Secretary of the Treasury, communicating a personal message from the Chancellor of the Exchequer to the Secretary. I have also received your letter, handed me on the same date, offering certain assurances on behalf of your Government with respect to the securities owned or controlled by it. For your records I hand you herewith a copy of the letter (which I showed you yesterday) which the secretary has written to the Secretary of State, incorporating a message in reply to the Chancellor of the Exchequer.

In view of these letters and of the urgent representations presented on behalf of your Government, the Secretary of the Treasury has felt constrained to consent to the application of the necessary $93,000,000 or $94,000,000 of the advances of the United States to the British Government in payment of the secured notes of your Government maturing on February 1st, and to the use of the purchase price, $80,794,041.65, of the requisitioned ships in reduction of your Government's call loan or overdraft.

I have pleasure in advising you of the establishment of a further credit of $65,000,000 for your Government for the month of January and of the establishment of a credit of $210,000,000 for your Government for the month of February, which amounts will be made available against the duly executed obligations of your Government.

I understand that against these credits your Government will desire advances in the amount of $65,000,000 on January 31st, $30,000,000 on February 1st, $60,000,000 on February 8th, $60,000,000 on February 15th, and $60,000,000 on a date to be determined.

I understand that your Government may be obliged to ask the establishment of an additional credit for the month of February, the amount of which is now estimated by you at $40,000,000, and such request will, of course, receive the careful consideration of the Secretary if your Government finds it necessary to make it.

In this connection and referring to our various talks concerning the loan of $40,000,000 in the United States which your Government is negotiating with the Japanese Government, and the balance of the Danish loan of $25,000,000 which I understand will be made available to your Government in New York from time to time in the next few months, the Secretary of the Treasury is of the opinion that in view of the very heavy demands which are foreshadowed for current purposes these sums, when made available to your Government, should be applied in reduction of those demands rather than of the capital liabilities of your Government in this country.

I understand from you that the Chancellor of the Exchequer has no recollection of having suggested to Mr. Crosby that some gold might be brought in from Canada. The Secretary would be very glad if you would inquire further into this matter and let me know whether it would not be feasible to do this.

I am, my dear Sir Hardman,

Very truly yours,

(Stamped) (Signed) R. C. LEFFINGWELL.

Sir S. HARDMAN LEVER,
Financial Secretary to the British Treasury,
Plaza Hotel, New York.

Enclosure.

("EXHIBIT No. 3047" appears in text on p. 9173.)

("EXHIBIT No. 3048" appears in text on p. 9173.)

EXHIBIT No. 3049

102.1/575

THE SECRETARY OF THE TREASURY,
Washington, February 2, 1918.

DEAR MR. SECRETARY: May I ask that you have the following message cabled to London to be communicated to the British Chancellor of the Exchequer:

"As indicated in my message of January 29th, I have felt constrained to meet your views as presented to me by your representatives here. Mr. Crosby was mistaken in supposing that the proposed arrangements make provision for the overdraft beyond what the ship money would suffice to pay. On the contrary, I am obliged to ask that such moneys as may be made available to your Government in the United States by the Japanese Government or the Danish Government or by shipments of gold shall be applied in reduction of your demands for current purposes rather than to retirement of capital liabilities."

May I ask you to have a copy of the foregoing message delivered to Mr. Crosby together with the following:

"Treasury number 70. Your cable of January 30th and your no. 58 received. Simultaneous therewith personnel message from Chancellor of the Exchequer whose understanding apparently quite different from yours. British Embassy will hand you copy my reply to the Chancellor. Ask Chancellor to give you copy of his cable to me which apparently shows that he still is unwilling to subrogate me to rights of pledgees with respect to collateral. In addition to credit of $185,000,000 previously established for British Government, $65,000,000 was advanced January 31, making total of $250,000,000 for January. For February, $210,000,000 credit has been established, of which $30,000,000 was advanced February 1. With these sums British Government is taking care of February first maturities. British Government also received February 1 from Shipping Board $80,794,000 for ships, which was applied on overdraft. Expect that moneys received by British from Japanese and Danish Governments shall be applied to current expenditures and not to retirement of capital indebtedness. British representatives here indicate possibility of having to ask for $40,000,000 this month in addition to $210,000,000 credit established but this question is being held in abeyance and my judgment is that nothing further will be needed for February."

Cordially yours,

[s] W. G. MCADOO, *Secretary.*

The HONORABLE, The SECRETARY OF STATE.

EXHIBIT No. 3050

PLAZA HOTEL,
New York, 5th February, 1918.

Hon. R. C. LEFFINGWELL,
Assistant Secretary of the Treasury,
Washington, D. C.

DEAR MR. LEFFINGWELL: I have to thank you for your letter of January 30th. I shall be glad if you will kindly thank the Secretary of the Treasury on behalf of my Government as well as of myself personally for his decision in this matter.

In accordance with your letter the sum of $80,794,041.65 representing payment for the ships requisitioned from the British Government has been applied in reduction of the call loan or overdraft, while a sum of approximately $92,000,000 is being applied to meeting the secured notes of the British Government which matured on February 1st.

The further credit of $65,000,000 for January and the credit of $210,000,000 established for February make an aggregate credit for the two months of $460,000,000, out of which $92,000,000 is applicable to outstanding obligations, leaving $368,000,000 for current outgoings. You will remember that the estimate of the amount of advances needed for January, based on actual commitments, was put at $235,000,000 with a possibility that an increase to $275,000,000 might be necessary, and that the Chancellor of the Exchequer in his message relative to food purchases placed the requirements for February at $260,000,000, while intimating that if this amount proved insufficient, a sum of about $40,000,000 to be obtained from a Japanese loan transaction might as a temporary measure be used to supplement it. It will thus be seen that the total credits required for current outgoings for the two months, if commitments were to be taken as the basis, would be at least $495,000,000. In these circumstances I desire to request that the supplementary credit of $40,000,000 for February, of which you speak in your letter, may in any case be established in favour of my Government. With this supplement the total credits for January and February available for current outgoings will still, at $408,000,000, be $87,000,000 below the figure indicated on the basis of commitments.

In accordance with our conversations of last week, I am prepared to agree to make my actual drawing on the credits established dependent on the progress of expenditure, on the understanding that any balance not drawn during the month for which the credit is established will be allowed to be drawn after the close of the month.

I note that the Secretary of the Treasury is of opinion that the proceeds of the Japanese loan of approximately $40,000,000, and the balance (which will not be available till April) of the Danish loan of $25,000,000, should be applied for current outgoings rather than in reduction of capital liabilities. I have at once conveyed this opinion to the Chancellor of the Exchequer, and at the same time I am making further enquiries in regard to the possibility of bringing a small amount of gold from Canada.

I am, dear Mr. Leffingwell,
Yours very truly,

[s] S. HARDMAN LEVER,
Financial Secretary to the Treasury.

("EXHIBIT No. 3051" appears in text on p. 9175.)

("EXHIBIT No. 3052" appears in text on p. 9175.)

EXHIBIT No. 3053

(In pencil) 1/30/18.

LORD READING,
32 Curson Street, London.

Learned from Cravath of serious situation existing in regard February first maturities. Impossible reach London in time to influence Chancellor's decision but wired him at midnight last night after vain effort to get into telephonic communication. Extremely important that I remain here at least until tomorrow to obtain results from conferences with Bliss and others concerning economies in orders for munitions, etc. Suggested to Chancellor that if he has refused to place collateral now in America as pledge for remainder of overdraft and February first maturity after application of ship money because of objectionable conditions of pledge, that he should consent now to those conditions with suggestion that Secretary of Treasury might undertake, if he considers them harsh, to obtain some modification after February first. It will be most unfortunate that appeal should be made to Treasury at last moment to save situation. I presume however it can be saved in another way namely that all the ship money should be applied to February first maturities leaving the overdraft as it is. I am extremely sorry that I cannot confer with you again but my whole visit here would be without effect unless I stay two or three days longer. I am counting upon your intervention to prevent any difficulty on first of February and also that you will fully explain existing situation here to Washington.

CROSBY.

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102. 1/547

EXHIBIT No. 3054

(*Telegram received from Paris, dated January 31, 1918. Rec'd. 8:41 p. m.*)

SECRETARY OF STATE,
Washington, D. C.

Thirty-first.

"For Secretary of Treasury. Number 58. Telegraphic communication with London extremely difficult, hence wired Chancellor immediately after receiving news from Cravath concerning difficulty of February first settlement suggesting that you were interested in getting whole situation cleared up. Although I was ignorant of details presumed matter included February first maturities and Morgan overdraft and suggested that he should consent to any arrangement which had thus far been negotiated by his agents and approved by you, and if his objection now referred to harsh conditions of pledge of collateral that he should leave this also to you for possible future modification. He wires me this morning that he has acted in accordance with this suggestion and indicated that there is no question of harsh conditions of pledge requiring modification, but that whole matter is left to you. Delay in permitting collateral to be applied in accordance with conditions of negotiations in Washington and New York, he says, was due to misunderstanding. It was impossible for me to reach London in time for personal discussion before February first and particularly without losing effect of conference here with Bliss and Pershing in line with your correspondence with Secretary Baker. Will wire later today concerning this matter.—CROSBY."

SHARP.

EXHIBIT No. 3055

FEBRUARY 1, 1918.

The Honourable W. G. MCADOO,
Secretary of the Treasury, Washington, D. C.

MY DEAR MR. SECRETARY: I beg to inform you that I have received a telegram from the Chancellor of the Exchequer asking that the following personal message may be conveyed to you from him:

"Since sending my message of January 28th through Sir Hardman Lever I have been in further communication with your representatives here and judging from the impressions they have formed from cable to Mr. Crosby there must be some misunderstanding.

"Position as I understood it was explained in my previous message which I did not intend to be a refusal of any arrangement you might press for. I would only add for the sake of clearness that the political difficulty I foresaw here was not an attack on me or on the British Government but speeches in House of Commons contrasting our action towards Allies with that of the United States towards us.

"Mr. Crosby however believes proposed arrangements cover a much wider field than I had understood and that you had it in mind to provide not only for the February 1st maturity but for the entire balance Morgans overdraft after application to ship money. This of course would be a step very greatly relieving us for which we should owe your Government very real gratitude.

"Please realize we greatly appreciate what you are doing to meet our old obligations and that I am ready to agree to any arrangement respecting our American securities which you may think necessary either for the protection of your market or to assist you in future financial operations."

Believe me , my dear Mr. Secretary,

Very sincerely yours,

[s] Richard Crawford.

("Exhibit No. 3056" appears in text on p. 9175.)

Exhibit No. 3057

[Cable dispatched to Morgan, Grenfell & Co., London]

J. P. Morgan & Co.,
Cable Department,
Feb. 1, 1918.

61767/ Have transferred from British Government.

Treasury account to British Gov't Commercial Agency a/c	$1,600,000.00
Rate 4.76 7/16.	
Payments British Government Commercial Agency a/c	1,750,311.00
Includes Foodminders payments	543,549.50
Balance at credit British Gov't Comm'l Agency a/c	54,621.00
Includes reimbursement of advance on contract B306–16R Eddystone Ammunition Corp'n	161,408.87

BRITISH GOVERNMENT TREASURY ACCOUNT

Receipts:	
Federal Reserve Bank	30,000,000.00
Amount received from the U. S. Government on account of amount due from U. S. Shipping Board and the U. S. Shipping Board Emergency Fleet Corporation, in accordance with an agreement between the above named, the Cunard Steamship Co., Ltd., the British Controller of Shipping, and the Financial Secretary to the British Treasury (dated January 30th, 1918)	80,794,041.65
Interest to February 1st on participation in loan no. 2 held for account British Treasury	3,850.00
Payments:	
Redemption of United Kingdom 5½% notes	91,931,000.00
Service commission 1/16%	57,456.87
Interest due February 1st, 2 years 5½% notes	3,932,445.00
⅛% commission	4,915.56
Interest due Feb. 1st, one year 5½% notes	2,538,882.50
⅛% commission	3,173.60
Interest due Feb. 1st, 20 years 5½% bonds	12,017.50
⅛% commission	15.03
Interest due Feb. 1st, Central Argentine R'y. 6% notes	450,000.00
¼% commission	1,125.00
Six months interest British Gov't Treasury 5% notes (issued to contractors)	897,500.00
⅛% commission	1,121.87
Interest to Feb. 1st on loan no. 2	1,166,675.42
Payment on account loan no. 2	80,794,041.65
Paid Wheat Export Co., Inc., N. Y	2,558,935.60
Sugar	286,943.40
Meat	57,000.00
Balance at credit British Gov't Treasury a/c	136,534,177.37
Balance at credit British Government Treasury, United Kingdom of Great Britain and Ireland Treasury bills	8,620,000.00
Loan no. 2	135,745,958.35

Morganco.

SM.

Exhibit No. 3058

February 1st, 1918.

British Government Treasury Account.

Messrs. Morgan, Grenfell & Co.,
London, England.

Dear Sirs: Referring to our daily cable of today in which we advised the following credits and charges, which we herewith beg to confirm:

Received from the Federal Reserve Bank	$30,000,000.00
Received from the United States Government on account of amount due from United States Shipping Board and the United States Shipping Board Emergency Fleet Corporation, in accordance with the agreement between the above named, the Cunard Steamship Co., the British Controller of Shipping, and the Financial Secretary to the British Treasury (dated January 30, 1918)	80,794,041.65
Interest to Feb. 1st on participation in His Britannic Majesty's Government loan no. 2 held for account of British Treasury	3,850.00

We have today charged the British Government Treasury account as follows:

To cover the redemption of a like amount par value of United Kingdom of Great Britain and Ireland 1 year 5½% notes outstanding, due today		$91,931,000.00
This amount is arrived at as follows:		
Original issue	$100,000,000.00	
Redeemed from proceeds of sales of collaterals	7,388,000.00	
Converted to 20-year 5½% bonds ex. Feb. 1, 1918 coupons	392,000.00	
Converted into 20-year bonds with the Feb. 1, 1918 coupons attached to the bonds, retired	289,000.00	
Our commission for redeeming above bonds		57,456.87
Interest due Feb. 1st 1 year 5½% notes, coupons outstanding		2,538,882.50
Our ⅛% commission		3,173.60
Interest due Feb. 1st on $142,998,000.00 par value 2 year 5½% notes outstanding		3,932,445.00
The above amount is arrived at as follows:		
Original issue	$150,000,000.00	
Less amount redeemed from proceeds of sale of collaterals	6,854,000.00	
Less converted into 20-year 5½% bonds	148,000.00	
Our commission on interest due		4,915.56
Interest due Feb. 1st on 20-year 5½% bonds outstanding (with Feb. 1st, 1918 coupons attached)		12,017.50
Our ⅛% commission		15.03
Interest due Feb. 1st Central Argentine Ry. Co. conv. 6% notes		450,000.00
Our ¼% commission		1,125.00
Six months interest due Feb. 1st on British Government Treasury 2-year 5% notes issued to contractors		897,500.00
Our ⅛% commission		1,121.87
Interest to Feb. 1st on His Brittanic Majesty's Government loan "Morgan, Grenfell & Co. on account of clients no. 2"		1,166,675.42
We have also charged the British Government Treasury account		80,794,041.65
Which amount we have applied as a payment on account of the principal of loan no. 2, thereby reducing the unpaid balance of said loan to		135,745,958.35

Trusting you will find these figures agree with our cable, we beg to remain,

Yours very truly,

per pro. J. P. Morgan & Co.

SM–RK.

("Exhibit No. 3059" appears in text on p. 9176.)

("EXHIBIT No. 3060" appears in text on p. 9176.)

EXHIBIT No. 3061

[Typewritten note: Mr. RATHBONE: Let us see what Reading will propose. R. C. L.]

FEBY. 14, '18.

Memorandum for Mr. Leffingwell in regard to February first maturities of British Government and over-draft or call loans.

Information should be obtained:

(1) List of securities which were held Feb. 1, '18, to secure the one year secured gold notes of the British Government.

(2) The amount of the over-draft remaining unpaid with amount of Treasury bills outstanding given in partial payment thereof.

(3) List of securities held Feb. 1, '18, to secure the over-draft with a memorandum showing to what extent these various securities may now be released.

It may suit the purposes of the United States Government to select the different collaterals to be released from the over-draft.

[Form of letter to Secretary of Treasury by British representative]

To ensure the subrogation of the United States Government to the rights of the creditor in respect of the securities pledged to secure the one year secured gold notes of the British Government, which were paid on or about February 1, 1918, and the securities, which were released on or about said date, from the charge of the call loan or over-draft, or at the option of the Secretary of the Treasury the use of such securities in such manner as he shall approve, I hand you herewith letters from various financial institutions setting forth that they hold the securities specified in such respective letters subject to the order and direction of the Secretary of the Treasury; the income accruing on such securities to be collected by the British Government for its own account while the securities are held as aforesaid by such financial institutions. By the delivery of the letters mentioned, it is not intended to transfer title to the securities therein mentioned.

[Form of letters to Secretary of Treasury from financial institutions]

This is to certify that the securities mentioned below are held by the undersigned, in bearer form or accompanied by appropriate transfers in blank, subject to the order and direction of the Secretary of the Treasury of the United States. While the said securities are held by the undersigned dividends received, interest collected thereon and matured coupons, from time to time, are to be delivered by the undersigned to or upon the order of

(List of securities, dated February —, 1918.)

[Form letter to Secretary of Treasury by British representative]

Having made the necessary arrangements with the holder of the over-draft or demand loan, I assure you that without your previous consent during the next few months the securities held to secure such over-draft or demand loan will not be disposed of or otherwise dealt with.

[S] A. R.

EXHIBIT No. 3062

(In pencil) ENGLAND.

MEMORANDUM OF CONVERSATION WITH MR. BLACKETT, FEBRUARY 23 (1918)

1. Mr. Blackett's attention was directed to the car loads of export freight at North Atlantic ports held for British Government on February 15th as per Mr. Smith's letter of February 16th. Mr. Blackett said he would like to know the number of car loads so held as of January 1st; that he did not know whether the amount of car loads for the British Government on February 15th, 3,333, was excessive and would make inquiries on the subject as he appreciated the necessity of freeing cars as speedily as possible.

2. Mr. Blackett explained the Treasury bill operations which he said had been used exclusively for the purpose of reducing the over-draft. He distinguished the Treasury bills from the Treasury notes issued to du Pont, as shown on the

December statement, and promised to furnish an itemized list of interest payments reported on the summaries for October and November. He stated the amounts now due on the over-draft at substantially $130,000,000 and in addition $100,000,000 of Treasury bills. The discount on Treasury bills was in effect payment of interest thereon in advance and accordingly all such discounts were, in effect, payments of interest on the over-draft.

3. The du Pont notes, the payment of which is included on the October summary, Mr. Blackett stated were one-year obligations, as were the du Pont notes, which matured in December and would mature in March. Of notes which matured in December one-half were paid and one-half extended for three months and would mature in March. Mr. Blackett said that the du Pont notes paid in October were not allocated against the United States advances and that, in accordance with an understanding reached with Mr. Crosby, they were to be paid from the amount payable by the United States Government for rifle plants in the United States which it had taken over from Great Britain, that the total amount so payable by the United States War Department was $15,000,000, of which $3,900,000 had been paid.

4. The Canadian payments and the difference in the treatment thereof on the December and January statements Mr. Blackett explained as follows: The munitions and food, etc., purchased in Canada were financed through the United States advances and certain Canadian advances, while the advances from the United States for the purpose, estimated to be about $15,000,000, a month, were about equal in amount to the amounts expended by Canadian munition makes for raw materials purchased in the United States, Canadian authorities thought that Canadian advances should be allocated to the cost of munitions purchased in Canada rather than to cost of food purchased there on the theory that Canadians felt that their food would be salable whether or not purchased by the British through advances made by Canada and that their munitions would not be salable unless purchased by the British through advances so furnished. Mr. Blackett further stated that it was merely a bookkeeping entry as to the purpose of the use of the funds advanced by the United States. Mr. Blackett's attention was directed to the situation from the United States point of view and the distinction between United States advances for the purpose of enabling Great Britain to supply Canada with the amount required to purchase raw materials in the United States in the manufacture of British munitions and advances to Great Britain to enable it to purchase Canadian food supplies. Mr. Blackett was told that we should have, whatever the determination of the Treasury might be in this respect, information showing in detail the application of the Canadian advances for the months of December to January (the amount of the advances to Great Britain for Canadian payments in previous summaries having been allocated to the cost of munitions to the British Government). Mr. Blackett said he would furnish this data.

5. The question of reimbursements was then discussed. In regard to wheat purchases, Mr. Blackett thought that Lord Reading's letter of September 17th contained a clear statement of the arrangement that had theretofore been in effect between the British, French, and Italian Governments in relation of purchases of wheat, but that the principle to be adopted in the future while not so clearly stated in Lord Reading's letter indicated that in the future a different course of dealing in respect to the allocation between the three governments of wheat purchased by Great Britain on joint account. Mr. Blackett called attention to the possibility of Great Britain buying all of its wheat outside of the United States leaving United States wheat to be purchased by France and Italy, he admitted that shipments had not been made in that way not even during the pre-war period, although he stated that the Indian wheat surplus had been largely increased since the war. Mr. Blackett's attention was called to the fact that the United States might consistently take the position that it would make advances for the cost of cereals purchased in the United States to the government to whom the cereals were shipped, and that the United States had gone as far as it should in the theoretical allocation of purchases when it was willing to accept the theory outlined in Lord Reading's letter as to the method which had been theretofore used in the division of the cost of wheat purchases in the United States between Great Britain, France, and Italy. Mr. Blackett said that he thought that Mr. Dickinson's report of the wheat situation would be at hand in advance of their making up in March their requirements for April and that information in regard to other matters of reimbursement with Italy could be readily furnished in advance of applications for United States advances to the other countries to reimburse Great Britain. Mr. Blackett's attention was called to the amounts of contemplated Italian reimbursements mentioned by Mr. Alliata, namely;

$51,000,000 now and $67,000,000 later. Mr. Blackett said he thought there was some mistake in regard to these figures, that all he knew of was an item of about $60,000,000 which included $50,000,000 to the Italian Government on account of cereals and some $10,000,000 for other purposes; that he thought the $10,000,000 figure was too high and that on more careful examination would be reduced. He stated that the effect of the United States failing to advance to Italy the amount needed immediately to reimburse Great Britain would be to increase Great Britain's requirements for advances from the United States for the month of March by a like amount. The matter of French reimbursements was also discussed. The distinction between the Italian case and the French case was pointed out, the former being reimbursements for specific expenditures and the latter being an estimated payment on account to be adjusted later. Mr. Blackett stated that the French-English accounts had not been adjusted since July 1st last but that he expected an early adjustment of these accounts up to December 31 (?) and some figures had been exchanged between the two Governments for that purpose. Mr. Blackett also stated that the money adjustments between Great Britain and France as to exchange was made in the United States in dollars and that Frecnh contributions by the support of British exchange reduced by a like amount the advances asked of the United States for that purpose. Mr. Blackett said that he though that any failure on our part to advance to the French the amount necessary to enable France to make reimbursements to Great Britain in dollars might be difficult to adjust, but that so far as he could see the only effect requiring information as to transactions between Great Britain and Italy, before making advances to Italy for a reimbursement to Great Britain, other than as already stated, would be a loss of interest to Great Britain which he could, no doubt, adjust with Italy.

6. The matter of making the United States advances to Great Britain depend on the actual cash requirements of Great Britain over and above her other resources was discussed. Mr. Blackett said it was necessary that Great Britain know monthly in advance the amount it could count upon receiving and that in estimates of the amount required commitments were not included, but merely their cash requirements for the coming month. It was pointed out to Mr. Blackett that in making these applications the entire situation should be disclosed not only as to the payments to be made out of United States credits and reimbursements from the Allied Governments, but also the payments of every character and as well the British resources available from every source to meet such disbursements and that the United States advances should be limited to the amounts which could not be otherwise met. Mr. Blackett while not objecting to this method of procedure thought that the result would be about the same, as the British resources were now pretty well limited to the advances from the United States and the reimbursements from the Allied Governments, that collateral held under the over-draft when sold was applied to the reduction of the over-draft, that he did not anticipate any more transactions such as the Danish loan or the Japanese loan. He thought that the other British resources might be estimated at about $10,000,000, he stated, however, that the income from securities held by Great Britain amounted to about $5,000,000 a month and of the Danish loan $12,000,000 or $15,000,000 had already been received, he did not recall which amount, but he thought $15,000,000, and had been applied towards the reduction of the over-draft. The Japanese loan of $40,000,000 was available and that Lord Reading intended to discuss the disposition of this fund, particularly whether it should not be used to meet maturing du Pont notes which would have to be paid when due.

7. Mr. Blackett promised to furnish a statement of the collateral now held under the over-draft, the list formerly submitted is not accurate owing to sales of securities since made. He stated that while there was no right to release collateral held under the over-draft as payments were made on account of the same, Morgan and Company had agreed, however, to deliver a fair proportion of this collateral. He also stated that under the arrangements made, the collateral held under the over-draft was not to be sold for the present. The United States was to be subrogated to the rights of the creditor in respect of this collateral and the collateral held under the obligations paid February 6th (a list of which Mr. Blackett agreed to furnish), in accordance with the arrangement made. He said he had not worked out any plan in respect to such subrogation, as Lord Reading intended to discuss that matter.

8. Mr. Blackett stated that the British Government was without dollar funds at the close of September 1917 and that their cash resources in the United States were exhausted at the close of November; that their December estimates were about correct and that their disbursements were made at about the rate estimated

until after Christmas and after that time they fell behindhand, largely through delay in shipments and receipts of materials, and the same was substantially the case in January, but that by spring he did not anticipate any such delays.

(Initialed) A. R.

Exhibit No. 3063

(*The Ambassador in Great Britain* (*Page*) *to the Secretary of State*)

[Telegram]

London, *August 21, 1917—4 p. m.*
[Received August 22, 8:50 a. m.]

6993. I have received the following personal and private letter which I quote in full:

My Dear Ambassador: When I was in the United States the question was raised as to whether the shipping under construction in American yards on British account should be taken over by the American Government or should remain in the ownership of the country for which it was being built. Mr. Denman, at that time head of the Shipping Board, raised this point in the course of a conference at which both he and General Goethals were present which the British Government had adopted; his line of argument being that British orders occupied all the yards in the United States that American labor and American capital were absorbed in the construction of British shipping and that with their assistance Britain would find herself at the end of the war possessed of a great mercantile marine which the United States had built but did not own.

I took the liberty of pointing out to Mr. Denman in reply that in ordering these ships before America entered the war Great Britain took the only course open to her and one which, however the question of ownership was ultimately decided, must be to the advantage of all the powers fighting against Germany. It was of the first necessity that the whole of the world's resources in shipbuilding open to the Allies should be used in the construction of mercantile ships and as America was not then among the belligerents it was only by the British Government that the necessary arrangements could at that time be made with private owners of shipyards in the United States. I added that under no circumstances would the British Government enter into controversy with the State Department on the question of ownership and that we placed complete reliance upon the justice and goodwill of the authorities in Washington. To this policy we still adhere. If the United States Government after surveying all the circumstances of the case think the ships that we have ordered in their yards should belong to them we shall not think of making any protest nor are we of opinion that if the ships on completion are used in the war work of the Allies the question of ownership has any material bearing upon the conduct of the war. It may however be worth observing that if our own policy towards our Allies were taken as a precedent there would be no change of ownership in the case of the British ships now under construction in American yards. We always drew a sharp distinction between ships building for Allies in our yards and ships building for neutrals.

The latter were brought under the British flag and retained in Allied services for the period of the war, work on the former was dealt with exactly as if the ships were being built for British owners and when finished they were handed over without reserve to the country on whose account they had been ordered. There was as far as I can ascertain only one exception to this general practice and in this particular case satisfactory arrangements were made. From very nature of the case the largest losses in mercantile shipping have been borne by Great Britain. It is on Great Britain in the main that the Allies have relied for the maintenance of the seaborne traffic on which not merely their capacity for fighting but their very existence depends. It is on Great Britain that the full brunt of the submarine campaign has fallen. Our losses have been heavy and unless we obtain the ships now under construction for us in America we cannot easily tide over the critical period which must elapse before our own extended shipbuilding program bears its full fruit.

We should therefore feel much gratified if the United States Government thought it consistent with the claims of their own national interests to allow the ships now building for us in America to remain in their present ownership, though for the reasons given above we shall not press the point. We rely (as I said at Washington) on their justice and goodwill.

Yours sincerely,

Arthur James Balfour.

Page.

EXHIBIT No. 3064

(*The Secretary of State to the Ambassador in Great Britain* (*Page*))

[Telegram]

WASHINGTON, *September 7, 1917—3 p. m.*

5388. Your 6993, August 21, 4 p. m. After giving very careful thought and consideration to Mr. Balfour's views the chairman of the Shipping Board has made following reply to Secretary of State, which represents the views of this Government:

It has not been with any view to national advantage, but with the single-minded purpose of waging the war successfully, that my own personal thought has been given to this matter. On account of the uncertainty of the amount of tonnage we may require for our troops in France, my views are that we must move slowly. Our line of communication to our troops in France extends over the Atlantic Ocean. It is our first duty, not only to ourselves but to the nations associated with the United States in the war against the German Government, to see to it that every precaution is taken to preserve these lines of communication.

The American Government will be held responsible for the maintenance of its own fighting forces in France. It must not only have adequate transport facilities for troops, but must always have at hand a sufficient number of ships for the movement of supplies for the maintenance of these troops, as well as for the needs of the nations associated with us. The responsibility for this vital war service falls upon us. We cannot shirk the responsibility, or share it.

If we could calculate the measure of destruction of merchant shipping by submarines in the future, we would have greater freedom of action in this matter, but as the futue must be guessed, rather than gauged, it seems to me that we would assume grave risks in adopting any policy which would reduce our control of our own military and naval situation, without reducing our responsibility.

For your information, I will say that the steamship War Sword owned by the Cunard Line and now in San Francisco, which came under our commandeering order, has been turned over to the Cunard Company. This ship was ordered and paid for by the Cunard Company and I understand no money was due when the commandeering order went into effect and the ship was about ready to sail.

You will appreciate the uncertainty of our requirements on the other side at the present time, as well as in the future. We are figuring on sending thousands of tons of freight cars, locomotives, hospital trains, rails, ties, thousands of feet of lumber, and many other materials for construction of which it is impossible at the moment to gather complete data. In addition, the Army must be provided with transports, supplies for the Army, animals, munitions and food. For the sending of troops and supplies for our own men we can arrive at an approximation, but even this approximation is again made tentative by the degree of destructiveness in future submarine operations.

No one can predict with certainty or accuracy what demands will be made upon us in the future. The uncertainty of the entire situation is such that we should move cautiously with the thought always in mind of living up to our promises to our own people and to the nations associated with us. Our first thought, of course, must be for our own troops, and we must take every precaution to see that we are able to meet their requirements abundantly even at a time when we may have a million or two million men in France.

If we were to act hurriedly and turn over the tonnage to all foreign countries now in our yards, and later the submarine menace should increase, and thus decrease our present tonnage and proposed tonnage to a point where we could not supply our own soldiers or even delay the sending of such supplies, we would be placed in the position of having failed to use the good judgment which the American people expect us to use. The very labor used in the construction of these ships would have right to complain that its work had not saved its brothers in the trencees from the disaster that would come from a failure of supplies.

In view of all the facts, it is my hope that the British Government will appreciate the seriousness of our position and realize that the transportation of troops 3,000 miles is a serious task; that our ships must sail 6,000 miles in order to carry a cargo; that this is the longest line of communication which any nation in war has ever been compelled to maintain; that while they have suffered severely by the submarine and we recognize the point of view set forth in all friendliness, our own necessities require us to move with caution and care. They may rest assured that the tonnage in our yards that we may from time to time take over, if conditions demand it, will be in the service of our Army in France, as well as in the services of the nations associated with us in the war.

The American people have been most generous in giving every branch of our Government unlimited powers not only in supplying our Government sufficient funds but in being ready and willing to continue financing our associates in the war. The American people, in turn, expect us to pay special attention to our soldiers who are to fight our battles thousands of miles from home, and any steps taken whereby these men are not first considered, to my mind, would meet with the general disapproval of the American people.

LANSING.

EXHIBIT No. 3065

(The Ambassador in Great Britain (Page) to the Secretary of State)

[Telegrams]

LONDON, *October 26, 1917—4 p. m.*
[Received October 27, 2:20 p. m.]

7538. Mr. Balfour has just handed me the following aide memoire:

His Majesty's Government accept without question the decision of the United States Government to requisition all vessels building in American shipbuilding yards, including those building to British orders.

It may be convenient to repeat the British position in regard to these vessels. The orders were placed early in this year as soon as the commencement of the intensive submarine campaign made it obvious that the shortage of tonnage available for war services would be one of the most important factors in the war. This action was taken before America entered the war and was discontinued as soon as there was any indication that continued purchases might embarrass the future action of the Government of the United States. His Majesty's Government have been only anxious to maintain as far as possible the number of vessels available for war services and they have throughout made it clear that they would acquiesce without protest in whatever decision the United States Government took in the matter. His Majesty's Government recognize that the early advent of an American army is an advantage for which many risks must be accepted. The fact that the requirement of the United States for military transport will exceed previous expectations raises, however, certain very serious considerations to which His Majesty's Government venture to call the attention of the United States Government. The British ships available already fall short of the essential needs of the Allies for food and supply and His Majesty's Government had hoped to make good part of the deficiency with vessels building in America. The transfer of these vessels from the British to the American Government does not materially affect the position except that it transfers from His Majesty's Government to the Government of the United States the power to help France and Italy. On the other hand the diversion of tonnage from supply to transport will greatly increase the demands which the Allies will necessarily make upon the United States Government. There is every indication that through comparatively poor harvests, etc., the Allies' needs will be greater rather than less and His Majesty's Government fear, therefore, that these demands can not be postponed or ignored without grave military risk. As regards oil tankers building to British Government order it is earnestly hoped that these will not be requisitioned in view of the very great difficulty which the British Admiralty is experiencing in supplying oil for British needs and for the other Allies. These vessels are intended for the supply of oil fuel for the use of the British Fleet and their possession has been reckoned on in all the calculations which have been made of the quantities which can be imported in future months in British tank steamers. Their withdrawal would, therefore, correspondingly increase British deficiencies and create a most serious situation.

In conversation Mr. Balfour pointed out that the American requisition of ships building for British in the United States necessarily transferred the obligation from Great Britain to the United States to supply Italy and France with certain material and food. He said, "I do not mean any technical obligations, of course, but we shall no longer have the shipping power to give them the help that we should otherwise have given."

Mr. Balfour then gave me the following memorandum from the Controller of Shipping:

As an illustration of the extreme gravity of the food situation in Italy the Shipping Controller stated today that the Italians had ordered direct from Europe to America 20 vessels which it had been arranged should load iron ore from Spain to the United Kingdom. The failure of these vessels to transport 100,000 tons of iron ore will deprive us of 100,000 tons of steel which with lower-grade ore and scrap iron could be made thereof and which in turn will make 200,000 tons gross of shipping. On this subject of steel, which is the neck of the bottle in the production of merchant tonnage in the United Kingdom, it has been reported recently to us that it might be possible for the United States to let us have considerable quantities of steel slabs or steel plates without interference with their shipbuilding program. It was suggested however that the Americans hesitated to send this steel to us because they doubted the energy we were putting into our merchant shipping construction and thought that we were wasting our resources of steel in other directions. An increase in the steel supply from America is of the utmost importance and if any such misconception as I have indicated above exists it should not be difficult for us to show Mr. Page or anyone he appoints what is the true position.

The rumor that our Government doubts whether the British are doing their utmost in merchant shipbuilding has for some time been current here. The Ministry of Shipping have informed me that they are held back only by lack of material. I shall now on my own account ask the Controller of Shipping to make good his promise in the last sentence of his memorandum

PAGE.

EXHIBIT NO. 3066

FEBRUARY 14, 1918.

Sir HARDMAN LEVER,
c/o British Embassy, Washington, D. C.

MY DEAR SIR HARDMAN: I am enclosing a letter which I had intended to send to the Assistant Secretary of the Treasury, outlining the origin of the demand loan, and the variations in its size from time to time.

It has seemed to us that it would be well for us to put this information in his hands, particularly to point out the amounts which this market has actually advanced to the British Government through the medium of this call loan since the United States dismissed the German Ambassador, so that if the Treasury at some future time has funds available for a further reduction of the demand loan, it will have ample basis for so doing on the ground of reimbursing advances made since the United States became in effect a belligerent.

Won't you please let me know if there is any part of this that you would particularly like to have altered in any way.

Yours very truly,

——— ———.

P. S.—You might wire or telephone me tomorrow, if you will, so that I can get the letter off tomorrow.

T. W. L.

AMA/EGK.

EXHIBIT NO. 3067

[Private file copy]

FEBRUARY 19, 1918.

Hon. R. C. LEFFINGWELL,
Assistant Secretary of the Treasury, Washington, D. C.

DEAR MR. LEFFINGWELL: I am taking advantage of a brief breathing spell to express my personal appreciation of your patience and courtesy in the working out of the transaction which was closed on the first of the month. Everything went through smoothly.

There was a little reluctance on the part of a few of the banks to substitute a 4% obligation of the United States Government for a 6% obligation of the British Government, amply secured. On the whole, however, all of the banks recognized their patriotic obligation to increase their liquid position (the desirability of which they had in fact urged upon us) in order to be of as much assistance as possible to the Secretary of the Treasury in the next few months.

There are some facts with reference to the English demand loan with which you are undoubtedly familiar, but as to which I should like (with the permission of the British Treasury representative here) to write you informally and personally. Our English friends as well as our own Treasury authorities have often alluded to it as an overdraft. As a matter of fact, it cannot properly be considered as such. Prior to the entrance of the United States into the war the British Government was taking care of its purchases of supplies in this market by (1) gold shipments, (2) sales of American securities, and (3) issues of secured loans from time to time.

Pending the arrival of gold, or the public issue of notes, it was our custom to make advances, repayable on demand, which advances (except as to the joint Anglo-French loan) were always secured by prime collateral, American or neutral.

I have consulted the records and find that on February 6th, which was just after Ambassador von Bernstorff received his passports, the amount of the call loan (reduced through the proceeds of the British note issue dated February 1st) was about $72,000,000.

Just at that time, you remember, we had laid plans for the issue of $198,000,000 of Canadian Pacific Railway securities, the proceeds of which would have cleaned up the British Treasury situation very well. But finally conditions became such that the British Treasury authorities agreed with the Federal authorities at Washington that the British Treasury would better not proceed with the Canadian Pacific operations. Therefore, by April 3rd (the date on which Congress declared war) the Canadian Pacific loan not having materialized and no effeorts having been made during the previous two months to issue loans on behalf of Great Britain, the demand loan had risen to, $355,000,000.

After the declaration of war, but before Congress authorized loans to the Allies, the British demand loan had increased by April 20th to $401,000,000.

As against the net increase in the loan of $46,000,000 between April 3rd and April 20th, the gross amount actually advanced to the Government (offset partly by credits arising from gold imports and sales of securities) was $58,000,000.

The amount similarly advanced *after* April 20th aggregated about $95,000,000; and the total amount advanced after February 6th (including the above items) aggregated about $526,000,000.

I am giving you the above figures to indicate the amount which the British Government actually borrowed in this country through the medium of the demand loan after Ambassador von Bernstorff was dismissed; which amount, had we actually declared war and had the Treasury had authority, might conceivably have been advanced out of United States funds.

Although advances were made of $526,000,000 over and above the $72,000,000 of February 6th, the loan did not increase to this full extent because, during this period, gold imports and sales of securities from time to time offset the increase. During the latter part of the year, when the markets were in a semi-disorganized condition, we made comparatively few sales, although we still held a most varied and comprehensive list of saleable collateral.

Because of the high character of the collateral which secured the loan (I doubt if the banks have ever had a demand loan of better character) we should have been entirely willing to permit it to stand until gradually liquidated by the sale of the securities, had it not been, first, for the heavy demands which we all felt we must meet for our own Government financing; and, second, for the sentimental effect of having the collateral overhang the market. For both of these reasons, neither of which is likely to disappear, I think it important that—now that a start has been made—the balance of the demand loan should be cleaned up—even if it can't be done all in one operation. Certainly that is imperative if we are ever to have a chance of issuing a new formal obligation of Great Britain here, as you once suggested in connection with the February maturities.

If the attitude of the banks in New York is a proper indication of the attitude of the banks in the country, I think the Secretary can rely upon their wholehearted support in the carrying out of the programme that he outlined a few days ago. Especially will this be true if it is known that the Federal Reserve banks will cooperate. As you know, I have always felt it would be a mistake to go to the country with a great Liberty Loan before the spring. Weather conditions not only make it more difficult to get around the country districts, but unconsciously affect the spirits of us all.

Very sincerely yours,

(In pencil) T. W. LAMONT.

TWL/CAD.

("EXHIBIT No. 3068" appears in text on p. 9184.)

("EXHIBIT No. 3069" appears in text on p. 9184.)

("EXHIBIT No. 3070" appears in text on p. 9185.)

EXHIBIT No. 3071

23 WALL STREET, NEW YORK, *July 3rd, 1918.*

R. C. LEFFINGWELL, Esq.,
Treasury Department, Washington, D. C.

MY DEAR LEFFINGWELL: I asked Anderson, when he returned from Washington a week or so ago, to tell me of his chat with you, for I had suggested to him that he bring up informally the matter of the British call loan. You will recall that last winter in our several discussions on the whole matter you expressed the hope that, after the first step had been taken in reduction of the loan, gradually further steps would be taken, until the obligation was entirely liquidated.

In fact, with this in mind, we were glad to accede to the condition that you laid down, that, until further notice, we should refrain from marketing any of the collateral. You, of course, realize that we had no real right to accede to this without consulting each one of the many banks that had an interest in the loan, inasmuch as each one of those institutions had a right to call his share of the loan, and, in the event of its not being paid, to demand the sale of collateral sufficient to liquidate it. Of course we did not consult all these institutions, knowing that you did not desire such publicity in the matter. But I simply recite all this to recall the circumstances to you.

Later on in the spring, when I had a little chat with you in Washington about other matters, you expressed a good deal of doubt about being able to take another step in the near future in assisting the British Treasury to liquidate the loan, but I did not attempt to argue the matter with you. I think, however, that you must now agree with me that in common justice to those who have so long carried this burden, some arrangement should be made either to liquidate the loan or to permit the borrower to take steps to liquidate it through the sale of the collateral.

I know that you have no intention whatsoever of taking any step that is not fair; but I submit to you that it is not fair to tell a man who is holding a loan that is long overdue, that he shall neither get his money by direct payment, nor shall he exercise his right to call upon the borrower to make payment through the sale of the collateral to the loan.

Furthermore, all the institutions who have now carried the burden of this so-called demand loan for almost a year and a half, have been, as you know, most loyally co-operative with the American Treasury. They will continue to be so, and that statement of course includes each and every one of us. But I must say that on the whole I don't think those institutions are fairly treated when they are compelled to carry this burden indefinitely and yet not allowed to collect the loan by the only means manifestly possible, and so lighten the burden. Further, if the amount were so considerable that it really made a vital difference to the situation of the American Treasury, it would be different. While, of course, it is large, remaining at approximately the $220,000,000 figure (including the ninety day Treasury bills), yet it almost seems to me that it could be cleaned off without an undue strain upon our own Treasury.

Looking at the other side of the picture, you have no idea how helpful it would be, as a constructive measure, to bury this dead horse completely, and once and for all. When a man takes on a loan as purely a demand obligation, and then finds it remaining as a permanent burden, it becomes after a while rather a sore point, and it isn't a good thing, as it strikes us, for either the British or the American Treasury to have this situation continue indefinitely. Furthermore, if the loan were cleared off, that would, as it seems to me, give us a good fighting chance to do something with the British maturity of $200,000,000 on September first, or, at any rate, with a substantial part of it.

Of course, unless the demand loan is taken care of, there will be no chance at all to do anything with the September maturities, the reason being that, in order to try to handle a new issue, we must look for underwriters largely to the very same institutions that are now carrying the demand loan. The British issue due on September first is in the form of bearer bonds, scattered all over the country, and it is quite out of the question to look to them with any confidence to take a fresh obligation. They have been trained too well to buy Liberty bonds and nothing else. But if we could get the loan underwritten, then there would be a fair chance of gradually peddling it out to the investor and getting it well planted: A condition precedent, however, as I have explained, to the underwriting of any new British issue, is the liquidation of the present call loan.

I am going away for ten days salmon fishing up at New Brunswick and a little rest, and I thought I would give you these lines to show you exactly the way the matter looks to me after canvassing the situation over here pretty carefully.

When I get back I hope that I shall have some word from you in some form or other. With great respect and cordial personal regards, I am,

Sincerely yours,

TWL/HN (Signed) Thomas W. Lamont.

Exhibit No. 3072

[Copy]

New York, *July 16, 1918.*

Dear Lord Reading: In Washington last week you asked me for a definite answer to the following questions:

(1) If the demand loan which the British Government now has with bankers should be paid off would it be possible to form a syndicate to guarantee the sale of about $200,000,000 of British Government notes to supply the Government with the necessary funds to meet the maturity of the $194,000,000 of secured notes due Sept. 1st?

(2) If such a syndicate could be made what would have to be the terms and conditions of the new notes and what would be the price to the public and the cost of the money to the British Government?

In view of the need for care lest the public should fancy that there is any question as to the payment of the maturing notes it has not been possible to make any very extensive inquiries, but after discussion with those best able to judge I can answer your questions as follows.

I believe such a syndicate could be formed; the new note could however only be of a short term—say 2½ years, and would have to be of a high coupon rate, say 6%. The price at which the syndicate would expect to sell it would be about 97½ to 97¾ and there would have to be a syndicate commission of about 3% making the net return to the British Government of about 94½ or 94¾. The collateral would have to be satisfactory and the note would have to have the privilege of conversion into a British Government unsecured long term (say 20 years) 6% bond.

The reasons for these extremely onerous terms are not any doubt either of the sufficiency of the borrower or of the security to be pledged but simply that there is at the present time a very intense competition for the comparatively small amount of money available for investment in other directions than Liberty Bonds, and the sum required is large in proportion to the total amount of funds for investment. The shortness of the term of the notes which I am advised is necessary also increases the difficulty as the syndicate being paid a percentage on the notes underwritten the amortization of that expense must be made in a short time.

It is hardly necessary for me to say that I sincerely hope some other way may be found by the British Government in which the needed money may be obtained at a less cost. I deeply regret being forced to give such a discouraging answer to your question.

Yours faithfully,

(signed) J. P. Morgan.

EXHIBIT No. 3073

18TH JULY 1918.

The Hon. R. C. LEFFINGWELL,
United States Treasury Department,
Washington.

MY DEAR MR. LEFFINGWELL: In accordance with my arrangement with you at our discussion on July 16th, I have pleasure in enclosing a copy of the letter addressed to me by Mr. J. P. Morgan in regard to the terms on which a public issue could be made on the market of a British Government Loan.

I am, my dear Mr. Leffingwell,
Very sincerely yours,

[s] READING.

(There was no exhibit marked "No. 3074")

("EXHIBIT No. 3075" appears in text on p. 9188.)

EXHIBIT No. 3076

[Telegram]

TREASURY DEPARTMENT,

58WuOT 31 Gvt

UD PORTLAND OGN 10A JULY 19, 1918.—2:04 p. m.

LEFFINGWELL,
Treasury, Washington.

Very much gratified everything going so well you may give Reading the assurances suggested in your telegram. I am steadily improving. Best regards.

W. G. MCADOO.

("EXHIBIT No. 3077" appears in text on p. 9189.)

("EXHIBIT No. 3078" appears in text on p. 9189.)

EXHIBIT No. 3079

23 WALL STREET, NEW YORK,
July 29th, 1918.

R. C. LEFFINGWELL, ESQ.
Treasury Department, Washington, D. C.

DEAR LEFFINGWELL: Thanks very much for your letter of July 27th. When Mr. Morgan returned and told me of his conference with you and Lord Reading, it seemed to me that the solution that you had tentatively arrived at, was, all things considered, as feasible as any other plan that could be suggested. I think that if this plan is carried out if will help the general money market situation somewhat, will enhance Great Britain's credit, and such effect as it will have on the impending Liberty Loan will certainly be favorable. If it comes to the question of marketing securities, of course you may rely upon the fact that we shall use the utmost circumspection in that regard.

I am going to be in Washington tomorrow for a little while at the request of the War Finance Corporation. I must catch the one o'clock train back to New York, but hope to drop in and simply pay my respects to you as I always desire to do.

Sincerely yours,

[s] T. W. LAMONT.

[Note: "Sir Hardman Lever says that Lord Reading said to J. P. M. yesterday at Boston McAdoo had approved this plan."]

EXHIBIT No. 3080

BRITISH EMBASSY,
Washington, 29th July 1918.

The Honourable W. G. McADOO.

MY DEAR MR. SECRETARY: The Chancellor of the Exchequer desires me to express his warm thanks to you for the assistance you have decided to give the British Treasury in the matter of the maturity of September 1st. It is a great satisfaction to him to know that you share his views that the terms proposed by Messrs Morgan were impossible of acceptance by the British Government. Indeed he never had any doubt but that you would come to this conclusion. Nevertheless it is a relief to him to know your decision so promptly, and he trusts that you will understand how much he appreciates your action.

May I, my dear Mr. Secretary, add my own expression of appreciation of the assistance you are giving to the British Treasury at this moment. May I also say how much I regret that I shall not be at Washington when you return and that our meeting must be deferred for a while.

I am, my dear Mr. Secretary,
Cordially and sincerely yours,

[s] READING.

("EXHIBIT No. 3081" appears in text on p. 9190.)

EXHIBIT No. 3082

841/51/126

[Telegram sent]

DEPARTMENT OF STATE,
Washington, August 14, 1918.

($15.19. Charge to Treasury Department.)

AMEMBASSY, *Paris:*

5327. For Crosby from Leffingwell. Treasury 325. Embassy's 4719. August 9, 6 p. m. Yours unnumbered of August 9. Have indicated to British our willingness to permit payment September first maturity from United States advances on lines similar to February first maturity including subrogation and on assurances from holder of demand loan or overdraft that it need not give us concern if they may gradually dispose of collateral as favorable opportunity offers. Will cable later regarding Metropolitan Water Board bonds.

[sgd.] LANSING.

[sgd.] R. LEFFINGWELL,
Assistant Secretary of the Treasury.

("EXHIBIT No. 3083" appears in text on p. 9190.)

EXHIBIT No. 3084

AUGUST 26, 1918.

The PRESIDENT,
The White House.

DEAR MR. PRESIDENT: Of the credit of $175,000,000 established in favor of the British Government, for which your approval was given on July 11 last, there remains at the close of business August 24 an available balance of $70,000,000. On September 3 there will become due obligations of the British Government amounting approximately to $193,000,000 and later in the month about $6,000,000 additional obligations, the payment of which is guaranteed by the British Government. I am satisfied that the obligations of the British Government mentioned can not be replaced by its new obligations except upon terms which would seriously reflect upon British credit and would be detrimental to the general situation. The collateral pledged to secure these obligations consists principally of United States railway, public service, and industrial bonds and stock, Canadian railway securities, and government obligations of Canada, the Argentine, and Chile. It would, in my judgment, be unwise to force the British Government to sell this collateral now in order to raise the amount necessary to pay these obligations. Such a sale upon our markets would have a most unfortunate effect upon our financial situation, which it is most important to protect.

I have arranged, therefore, with the British Government to advance the amounts needed to take up these obligations at their maturity on their assurance that I shall be subrogated to the rights of the present holders of such securities in respect to the pledged collateral. When opportunity offers this collateral may be disposed of to provide for approved British expenditures here, thus reducing the amount of our future advances or in reimbursement of our advances already made and to obtain credits in Chile and the Argentine.

I now ask your approval of a further credit in favor of the British Government in the amount of $400,000,000, which with the available balance from the previously established credit should be sufficient to provide the funds to meet the maturities above mentioned and to defray the estimated cash requirements of the British Government in the United States until some time during the month of October.

Cordially yours,

(Sgd.) W. G. McAdoo.

The White House,
Approved August 1918.
AR/AP.
A. R. RCL

Exhibit No. 3085

The Secretary of the Treasury,
August 26, 1918.

Memorandum for Mr. Leffingwell.

I think it would be well to give the President an idea of the character of the collateral security for the British loan. The insertion could be made at the end of the first paragraph.

I think it would be well also to say that it is necessary, in my opinion, to take up the British loan for the protection of our financial situation and also that if the British loan should not be provided for, and the collateral should be thrown upon the American market, it would have a very unfortunate effect, and that by taking up the loan, the Treasury can, when a suitable opportunity presents itself, dispose of the collateral and be reimbursed for the advances made.

W. G. McAdoo.

("Exhibit No. 3086" appears in text on p. 9191.)

("Exhibit No. 3087" appears in text on p. 9191.)

("Exhibit No. 3088" appears in text on p. 9191.)

("Exhibit No. 3089" appears in text on p. 9192.)

("Exhibit No. 3090" appears in text on p. 9192.)

("Exhibit No. 3091" appears in text on p. 9192.)

("Exhibit No. 3092" appears in text on p. 9193.)

("EXHIBIT No. 3093" appears in text on p. 9193.)

("EXHIBIT No. 3094" appears in text on p. 9194.)

EXHIBIT No. 3095

DECEMBER 31, 1918.

DEAR SIR HARDMAN: The memorandum of December 26, 1918, which you handed me last Friday has received the careful consideration of this Department.

I regret that the United States Treasury is not in a position, even if the existing legislation permitted it. to advance to your Government $500,000,000 in addition to the balance of the $250,000,000 special credit which still remains available to your Government.

Now that the war is virtually ended and the attention of our people is being more and more concentrated on private endeavor, the meeting of our own large war expenditures and the advances in the nature of relief which this Government is being called upon to make to countries that are utterly unable to care for their necessary expenditures for this purpose, imposes a burden upon the United States Treasury which cannot be extended to meet the suggested additional advance to your Government.

Even were such not the case, the existing legislation authorizing the loans to be made by the Secretary of the Treasury to foreign governments does not contemplate advances for some of the purposes indicated by the memoranda. You will recall that the only loans which the Secretary of the Treasury may make to foreign governments are for the purpose of our national security and defense and the prosecution of the war.

In the judgment of this Department a large part of the outstanding obligations of your Government maturing February 1, 1919, will be converted in accordance with the option given the holders thereof. It should be possible for your Government to float a loan on our market at this time on terms it could accept and sufficient in amount to provide for the payment of such of the obligations of your Government as mature on February 1, 1919, and are not converted and to leave a substantial balance to meet other requirements of your Government in the United States. It is probably possible to increase the amount of your Treasury bills outstanding. You have already been informed of the view of the Treasury that it does not see its way in any event to make advances to your Government to meet these maturities, or to make advances to your Government for other purposes, which could be met by your Government if its maturities are refunded and not paid.

You will recall that your estimate as of December 1, 1918, showed that apart from maturities and commitments for food and cereals, the outstanding commitments of your Government less estimated cancellations aggregated $154,000,000. During the month of December your Government has received:

Loans from this Government	$186, 000, 000
In reimbursement for sterling furnished this Government	45, 029, 000
Reimbursement in dollars from the Italian Government (exclusive of the $6,500,000 per week on account of cereal purchases)	20, 000, 000
Total	251, 029, 000

Of the special $250,000,000 credit recently established in favor of your Government, there still remains available $193,961,000.

In addition, your Government has received dollar reimbursement from France, and has claims against other foreign governments for dollar reimbursement aggregating many millions of dollars. It will also be in control of dollar funds arising from sales of wool, ocean transportation of troops, sales of securities, sales of materials and other proceeds of liquidation of war activities.

It is the view of this Department that many of the requirements of your Government in this country can be met through the private credits ordinarily extended by private interests in normal times and conditions. Since many of the purchases of your Government are, I understand, now made on the basis of immediate payment the change to a commercial basis allowing a reasonable interval between purchase here and payment should afford marked relief in a situation which is essentially of a temporary character.

I also wish to refer again to the American and neutral securities which are available for sale by your Government, or which it may make available for sale. Foreign currencies realized upon such sales could in many instances be advantageously exchanged into dollars at the present exchange rate or they might be utilized in defraying the cost of raw material entering into commodities that your Government may desire to purchase in the United States.

I sincerely hope and I have no reason to doubt that by effective use of the method suggested and others, the financial requirements of your Government can be met without undue strain.

The treasury would have been glad if it could have seen its way by advances to make the task easier, but I am sure you will appreciate the heaviness of the burdens which the Treasury has to bear and will realize both the legal and the practical difficulties which prevent its acceding to your request.

I will write you later regarding the sale of silver to your Government under the authority of the Pittman Act and also regarding the dollar payments which have for some time been made weekly by the French Government to the British Treasury.

Very truly yours,

[s] ALBERT RATHBONE.

Sir S. HARDMAN LEVER,
c/o Plaza Hotel, New York City.

EXHIBIT NO. 3096

[Stamped: Answered Jan. 22, 1919. E. B. S., vice president]

[Confidential]

J. P. MORGAN & Co.,
New York, January 21, 1919.

FIRST NATIONAL BANK,
2 Wall Street, New York, N. Y.

DEAR SIRS: Referring to our various conversations in regard to an account to be formed to underwrite the conversion of the remaining outstanding United Kingdom 5½% Notes due February 1, we now beg to advise that we have just reached an agreement with the British Government whereby we shall in effect underwrite the conversion on the basis of the amount outstanding at the time the British Government was able to act on our proposal; viz, approximately $95,000,000. It has been necessary to reduce somewhat the amount of the participations which have been tentatively discussed and we now confirm your interest in the business to be $5,000,000 based on approximately $95,000,000 to be underwritten.

The actual form of the commitment is that we agree to purchase at 99 and accrued interest, payable on February 1, an amount of the new 20-year 5½% bonds equivalent to the amount of notes outstanding on January 15, we are on our part to agree to supply at par all bonds that may be required for conversion. For your information we advise that conversions subsequent to the 15th amount to date to $14,000,000.

The method of dealing with such bonds as may be retained by the group in connection with this proposal will be decided when the amount is definitely ascertained.

Please advise if the foregoing is in accordance with your understanding.

Yours very truly,

J. P. MORGAN Co.

AMA/MEC

EXHIBIT NO. 3097

[Stamped: Answered Feb. 7, 1919. E. B. S. Vice President.]

[Confidential]

J. P. MORGAN & Co.,
New York, February 6, 1919.

FIRST NATIONAL BANK,
2 Wall Street, New York, N. Y.

DEAR SIRS: With reference to your interest of $5,000,000 in the account formed to underwrite the conversion of the United Kingdom two-year 5½%

notes in accordance with our letter of January 21, we beg to advise that there remained, unconverted, notes to the amount of approximately $44,500,000.

Members of the account have indicated to us their wish to withdraw bonds for investment to the amount of about $15,000,000, such bonds so withdrawn not to be resold in the market for a period of three months, unless sooner released by us.

As to the remaining amount of about $29,000,000 bonds, we are forming a syndicate to purchase such bonds from us at par and interest, for distribution at 101 and interest, in accordance with the terms of the enclosed syndicate letter. We are planning to syndicate among dealers and distributing institutions, other than those in the group, approximately 50% of the above $29,000,000 bonds remaining. Your interest in the remaining 50% bonds, based upon your percentage of interest in the underwriting as set forth in our letter of January 21 will be approximately $750,000, the exact amount to be determined when answers from the other members of the syndicate have been received.

Yours very truly,

J. P. Morgan Co.

AMA/MEC.
Enclosure.

Exhibit No. 3098

High Commissioner
The Earl of Reading, C. C. B.
Assistant Commissioner for Finance
Sir S. Hardman Lever, K. C. B.
Financial Secretary to the Treasury

British War Mission,
Office of the British Treasury Representative,
23 Wall Street, New York City, 18 January 1919.

The Honorable Albert Rathbone,
Treasury Deparrtment, Washington, D. C.

Dear Mr. Rathbone: In reply to your letter of January 16th, my Government is prepared to substitute 33,500 shares Pennsylvania Railroad Company stock and 15,000 shares Great Northern Railroad preferred stock for the securities set forth in the list handed you at the end of December. The purpose of this substitution is to set free from subrogation to the Secretary of the Treasury securities which are the absolute property of the British Treasury, having been purchased by the British Treasury from British owners, and to sell the securities so set free on the market here as and when opportunity arises. The securities which will be substituted are held by the British Treasury under one or other of the deposit schemes, the essence of which is that the securities deposited are not the absolute property of the British Treasury but are returnable to the owners unless circumstances make it inevitable that the British Treasury should dispose of them. The British Government is under a moral obligation not to dispose of them if it can possibly avoid doing so. No change has taken place in the position in regard to deposited securities subrogated to the Secretary of the Treasury since February last when subrogation first began. As regards all deposited securities which are subrogated, therefore, it cannot be said that the rights of the Secretary of the Treasury are precisely the same as they are in regard to securities which are the absolute property of the British Treasury.

I have set out this situation at length in order that there may be no risk of misunderstanding. I would point out that the question of substitution was raised solely because in respect of securities which it proposed to substitute, the British Treasury was not in a position to effect sales on the market because the securities were deposited.

I am, dear Mr. Rathbone,
Yours sincerely,

[s] S. Hardman Lever,
Financial Secretary to the Treasury.

Exhibit No. 3099

January 22, 1919.

Sir S. Hardman Lever,
The Plaza Hotel, New York City.

Dear Sir Hardman: I have received you letter of the 18th instant in regard to the substitution of securities referred to in my letter of the 16th instant. I also note that the British Government is under a moral obligation not to dispose of the substituted shares if it can possibly avoid doing so. It is the understanding of this Department, however, that the rights of the Secretary of the Treasury are to be precisely the same in respect to these securities as in respect to those which are to be released; that the rights of the persons to whom the British Government are under moral obligations in respect thereof are wholly subordinate to the rights of the Secretary of the Treasury in respect thereto, and that the British Government is solely responsible regarding the moral obligations referred to with which the Secretary of the Treasury is not concerned.

You will appreciate that the Treasury could not with propriety consent to a substitution unless it had full rights in respect of the substituted securities not affected by any moral obligation of the Britiish Government.

I am, my dear Sir Hardman,

Very truly yours,

(Signed) Albert Rathbone

AR:FJ

Exhibit No. 3100

High Commissioner:
The Earl of Reading, B. C. G.
Assistant Commissioner for Finance
Sir S. Hardman Lever, K. C. B.
Financial Secretary to the Treasury

British War Mission,
Office of the British Treasury Representative,
23 Wall Street, New York City, 8th July 1919.

The Hon. Albert Rathbone,
Treasury Department,
Washington, D. C.

Dear Mr. Rathbone: Referring to my Government's request for the substitution of certain securities for those now held by my Government under its agreement with the Secretary of the Treasury to subrogate him to the rights of the pledgees in respect of certain securities held by my Government, I have pleasure in stating that the understanding of the Chancellor of the Exchequer in regard to the situation and the existing arrangement, made by cables, letters, and verbal conversations prior to the respective times when the advances hereinafter mentioned were made by the Secretary of the Treasury to my Government, is as follows:

Certain obligations, either payable to bearer or accompanied by proper transfers in blank, and certain shares of stock accompanied by transfers in blank, were pledged and deposited by my Government with the Bankers Trust Company as trustee under a trust agreement dated February 1st, 1917, to secure certain obligations of my Government, viz, one-year-5½% notes aggregating $100,000,000 which matured February 1st, 1918, and two-year-5½% notes aggregating $150,000,000 which matured February 1st, 1919. From time to time during the continuance of such pledge certain of the securities so pledged and deposited were withdrawn from such pledge upon the substitution and pledge and deposit in lieu thereof of certain other securities of substantially similar class and equal value, all in accordance with the terms of said trust agreement.

Under the terms of the one-year-5½% notes and of the two-year-5½% notes the holders thereof at their option had the right to convert the same into unsecured bonds of my Government. The trust agreement of February 1st, 1917, among other things provided that—

1. My Government might proportionately withdraw the collateral security so deposited as the one-year-5½% notes and the two-year-5½% notes were paid or surrendered for conversion, and

2. In the case of the failure of my Government to pay when due the principal of the one-year-5½% notes and of the two-year-5½% notes or in the case of the failure of my Government to pay the interest thereon when due, or within the period of thirty days thereafter, the collateral security deposited under the trust agreement of February 1st, 1917, might be sold and the proceeds of such sale or sales applied to the payment of the principal and interest of the one-year-5½% notes or the two-year-5½% notes.

On February 1st, 1918, the one-year-5½% notes that had not been theretofore retired by sales of securities or converted into unsecured obligations of my Government amounted to $91,931,000, and were paid by my Government through advances made to it by the United States Treasury in a corresponding amount.

On the date last mentioned there were outstanding $143,146,000 of the two-year-5½% notes, $6,854,000 having been theretofore retired by sales of said securities.

On February 1st, 1919, the two year 5½% notes of my Government outstanding aggregated $142,906,000, there having been theretofore retired $7,094,000 of said issue by sales of pledged securities. Those notes then maturing were not paid but through arrangements made by my Government through a group of bankers the two year 5½% notes then outstanding were converted of effective arrangements made for their conversion into unsecured bonds of my Government, so that no part of the collateral security theretofore deposited under the trust agreement is now held for the benefit of the two year 5½% notes.

It is the understanding of my Government that it is obligated at the request of the Secretary of the Treasury to deposit with the Treasury of the United States, or in case the Secretary of the Treasury shall so request, with such depository as my Government shall approve, in bearer from or accompanied by proper transfers in blank, 91,931/234,837ths, or say 46/117ths of the securities deposited or pledged on February 1st, 1918, under the trust agreement of February 1st, 1917, that being the proportion borne by the amount of one year 5½% notes paid at February 1st, 1918, to wit, $91,931,000, to the sum of said last mentioned amount and the amount of $142,906,000 two year 5½% notes which were unpaid at the opening of business on February 1st, 1918, in all $234,837,000, the deposit of said proportion of collateral to be regarded as a pledge of the same, free from any and all prior claims or charges thereon to secure the payment of advances to my Government by the Secretary of the Treasury in the amount of $91,931,000, it being understand that such collateral is not to be sold or otherwise resorted to unless the principal or interest of such obligations of my Government in the amount of $91,931,000 shall not be paid when due and then only after a notice to the representatives of my Government in Washington of not less than thirty days.

In addition to the securities hereinbefore referred to, certain other obligations either payable to bearer or accompanied by proper transfers in blank and certain shares of stock accompanied by transfers in blank were deposited by my Government with the Farmers Loan & Trust Company as trustee under a trust agreement dated September 1st, 1916, to secure certain obligations of my Government, viz, two year 5% secured loan gold notes aggregating $250,000,000, which matured September 1st, 1918. The trust agreement of September 1st, 1916, among other things provided that in case of the failure of my Government to pay when due the principal of the two year 5% secured loan gold notes or in case of the failure of my Government to pay the interest thereon when due or within the period of thirty days thereafter the collateral security deposited under the trust agreement of September 1st, 1916, might be sold and the proceeds of such sale or sale applied to the payment of the principal and interest of the two year 5% secured loan gold notes.

On September 1st, 1918, through advances made to my Government by the United States Treasury in a corresponding amount my Government paid or provided for the payment of all said outstanding two year 5% secured loan gold notes to the aggregate amount of $192,842,000.

It is the understanding of the Chancellor of the Exchequer that my Government is obligated at the request of the Secretary of the Treasury to deposit with the Treasurer of the United States or in case the Secretary of the Treasury shall so request with such depository as my Government shall approve in bearer form or accompanied by proper transfers in blank all of the securities deposited or pledged on September 1st, 1918, under the trust agreement of September 1st, 1916, the deposit of such securities to be regarded as a pledge of the same, free from any and all prior claims and charges thereon, to secure the payment of advances to my Government by the Secretary of the Treasury in the amount of $192,842,000, it being understood that such collateral security is not to be sold or otherwise resorted to unless the principal or interest of said obligations of my Government in the amount of $192,842,000 shall not be paid when due, and then only after a notice to representatives of my Government in Washington of not less than thirty days.

The arrangement under which said securities formerly deposited under the respective trust agreements of February 1st, 1917, and September 1st, 1916, are held by my Government and under which they are to be held when deposited as aforesaid, will permit my Government, but only with the consent of the Secretary of the Treasury, to substitute for any of the securities so held other securities of similar class and equal value. This is in accord with the rights of my Government as provided in said respective trust agreements.

During the progress of the war certain of the collateral previously deposited under the one or the other of the trust agreements mentioned was, with the consent of the Secretary of the Treasury, used as collateral for certain loans which my Government negotiated in neutral countries for the purpose of providing credits therein and rectifying the neutral exchanges. It is understood that any such collateral is not now included in the arrangements herein set forth, and is not to be considered in determining the proportion of the collateral previously deposited under the trust agreement of February 1st, 1917, which my Government is obligate to deposit as aforesaid.

The arrangement herein before entered into which it is now sought to define comprised also an undertaking by my Government to hold available for use in such manner as should be agreed upon between my Government and the Secretary of the Treasury, having in view the rights of the depositors of said securities with my Government, until the termination of the war, such securities which my Government owned and controlled and which were on February 1st, 1918, physically within the United States, other than and in addition to the securities pledged under the trust agreement before mentioned.

I shall be glad if you will be good enough to confirm on behalf of the Secretary of the Treasury the foregoing understanding and arrangements.

I am, dear Mr. Rathbone,
Yours sincerely,

[s] S. Hardman Lever,
Financial Secretary to the Treasury.

Exhibit No. 3101

July 8, 1919.

Sir S. Hardman Lever,
23 Wall Street, New York City.

Dear Sir Hardman: I take pleasure in confirming the arrangement as set forth in your letter of the 8th instant. I wish also to repeat my previous statement to you in regard to the securities mentioned in the next to the last paragraph of your said letter, viz, that as from certain aspects the war may be regarded as terminated, at least so far as active fighting is concerned, the Secretary of the Treasury therefore regards as completely fulfilled the undertakings of your Government set forth in and confirmed by your letter above mentioned in respect of the securities therein mentioned other than those in respect of which your Government is obligated, at the request of the Secretary of the Treasury, to deposit with the Treasurer of the United States, as set forth in your said letter.

I am, dear Sir Hardman,
Very truly yours,

(Signed) Albert Rathbone.

AR:MEH.

Exhibit No. 3102

19th November 1919.

Dear Mr. Rathbone: I have been thinking further about the suggestions which we discussed together on November 1st and 2nd for releasing the subrogated securities in whole or in part, and have spoken to the Chancellor of the Exchequer on the subject.

First, I think that the repayment of \$40,000,000 out of rupee credits if and when finally arranged ought to release a proportionate amount of the securities now subrogated, i. e., $\frac{40,000,000}{284,773,000}$ of \$344,000,000, where \$284,773,000 is the total United States advances covered by subrogated securities and \$344,000,000 the approximate nominal value of the latter. You will, I think, agree that it is really impossible to earmark advances as having been expended in a particular way. There would be no difficulty improving that the whole \$284,773,000 covered by subrogated securities was in fact provided out of British Government resources other than United States Government advances, the latter having been used for other purposes. If it be assumed that the \$284,773,000 were actually used out of United States advances to repay maturing market debt it is equally fair to assume that the \$40,000,000 now to be repaid are a repayment of part of these \$284,773,000.

Secondly I find that the British Treasury-owned securities in the subrogated list consist of—

Security:	Nominal value
Canadian Government 4½% bonds	$32,000,000
United States of America securities	437,000
Others	255,000
Total	32,692,000

As I explained to you we are anxious to secure the early release of the Canadian Government 4½% bonds, and I propose that these should be set free as part of the securities to be released in respect of the $40,000,000 repayment.

Thirdly, the "deposited" securities in the subrogated list are of a total nominal value of a proximately $312,000,000. These are not the absolute property of the British Treasury. It costs the British Treasury ½% per annum on the nominal value—i. e. $1,560,000 per annum—to retain them. And we are under a very definite obligation to return them to the owners in 1921.

I have explored the possibilities suggested by the line of thought started by you, that we should substitute for the securities now subrogated Belgian (Post-Armistice) bonds and similar securities of Allied Governments, and find that I cannot immediately put before you more than approximate figures. We have not yet come to any final settlement with the Belgian Government either as to the form, etc., of the bonds or as to the catagories of advances to be covered thereby, and in these circumstances you will appreciate that I must ask you to regard the necessarily approximate figures I quote as confidential.

Subject to this proviso I set out for your consideration a proposal, in accordance with the discussion between us, that the securities now subrogated should be released in accordance with the following schedule:

Total nominal value of subrogated securities	$344,804,082
On repayment of $40,000,000 you will release an amount (including the $32,000,000 Canadian Government 4½% bonds) equivalent to $\frac{40}{284.778}$ of $344,804,082 (say)	48,432,096
Leaving a balance still subrogated of	296,371,986
We leave subrogated "owned securities" to the amount of	692,000
And for the balance the British Treasury proposes to substitute—	
(1) Post Armistice Belgian securities to an approximate total of	49,400,000
(2) Bonds of other European Allies to the amount of the balance (say)	246,279,986
Total	296,371,986

The effect of this substitution will be that all the subrogated securities will be British Treasury owned.

I have the honor to be, dear Mr. Rathbone,

Yours faithfully,

[s] Basil P. Blackett.

Exhibit No. 3103

Hotel de Crillon,
Paris, 25th Nov. 1919.

Dear Blackett: Your letter of the 19th I have duly received.

I do not see how it is possible for the United States Treasury to take any position other than that definite amounts were advanced to your Government (1) for Pittman silver purchases; (2) to provide for the secured obligations of your Government maturing on the American market; and (3) for Austrian relief. Indeed the correspondence between the Treasuries in regard to these matters makes it quite plain, I think, that such was the case. It must follow that any repayment of advances for the purchase of Pittman silver, or any part thereof, could not be regarded as a payment which would justify a release of any of the subrogated securities.

Your figures regarding the British Treasury owned securities on the subrogated list are disappointing. Is it requisite that all of the Canadian Government bonds should be released at this time? Are not their British Treasury owned securities in the United States which are or could be made available for exchange for subrogated securities?

I hesitate to submit to the Secretary of the Treasury any plan for exchange of the subrogated securities having the result indicated by the figures in your letter. Moreover, I am confident the Secretary would desire to be informed at the same time when it was proposed that this particular advance should mature and the dates fixed for the payment of interest thereon.

I shall, of course, regard as confidential the approximate figures set forth in your letter. May I express the hope that negotiations with Belgium, as well as with other countries indebted both to Great Britain and the United States, in regard to the form of obligations to be given, will be carried on simultaneously by the British and United States Treasuries with the closest co-operation between the two Treasuries.

I am, my dear Mr. Blackett,
Very truly yours,

(Signed) ALBERT RATHBONE.

B. P. BLACKETT, Esq.,
Treasury, Whitehall, S. W. 1, London.

(“EXHIBIT No. 3104” appears in text on p. 9196.)

EXHIBIT No. 3105

TREASURY DEPARTMENT,
Washington, November 24, 1919.

Memorandum for the Secretary.

I have read the attached memorandum to you from Mr. Davis, dated November 21st, and the accompanying draft of a proposed cable from you to Mr. Rathbone concerning the relinquishment of the right of subrogation which the Treasury now has in respect to certain securities formerly pledged to secure British loans placed in this country before the United States entered the war and which were paid in whole or in part from advances made by the United States Treasury. I am strongly of the opinion that if the Treasury has the legal right to forego this right of subrogation it should do so. I ought to explain to you, however, that my opinion in this respect may be prejudiced by the fact that I never wholly sympathized with Secretary McAdoo's insistence upon this right of subrogation. I think his view in substance was that he was under some sort of a parliamentary pledge growing out of statements made by him before committees of Congress at the time when the First Liberty bond bill was under discussion. I believe that the hearings on the first bond bill were not reported and, as I did not reach the Treasury until May 7th, two weeks after the first bond bill had been signed by the President, I have no first-hand knowledge of this. There had been some talk in the newspapers about the war being forced upon the United States by big bankers in this country in order to make good the loans they had made to the Allies before the United States was in the war, and my recollection is that Secretary McAdoo thought he had said something to the committees to the effect that he did not expect to use the proceeds of the loans of the United States Government to pay off any of these private loans made before the United States was in the war. It is perfectly clear, however, that the act imposed no such limitation. I do not think that any statement of intention or explanation in a hearing before the committees which was not incorporated in the bill could in any way be controlling upon the discretion of the Secretary of the Treasury and the President in the emergency which was presented nine months later when the maturing obligations of the British Government in our market were taken up.

However that may be, the loans were made, and, in my judgment, there was nothing else in the world to do because they could not have been financed by the sale of securities to American investors at that stage of the war except, if at all, upon terms which would have been so harsh as to reflect gravely upon British credit and upon inter-Allied morale, not to mention the reflex upon Liberty bonds of an issue of British bonds upon extravagant terms.

There is nothing in the bond acts to require or, indeed, to authorize the Treasury to exact or to accept collateral securities for loans made to the Allied. No security was asked or obtained in any other case (unless the pledge of some of

Cuba's own bonds to secure its own notes would be regarded as security). I believe that some arrangement is being made now for a customs receivership in the case of a very small loan made to Liberia, but this also may be regarded as an eccentric matter.

The limit of the amount which the Treasury is entitled to collect out of the collateral security obtained is about $280,000,000. The collateral pledged is of a very much larger value, but the understanding is that it is pledged for loans to this limited amount. It seems to me to be bad business and bad policy to hold collateral for so small a fragment of our $4,500,000,000 of loans to Great Britain. The public here and in Great Britain do not know of the existence of this agreement in relation to subrogation, and I believe that, particularly in view of the present international situation and international affairs, politically and economically, it would be a great misfortune to have the claim of subrogation insisted upon. As a purely business matter, it seems to me that it is very bad business to hold collateral for so small a fragment of our great claim, for it to some extent reflects upon the credit of our debtor, embarrasses our debtor's operations in meeting his obligations and other necessities, and depresses the foreign exchange.

Along with the right of subrogation went some general understandings as to the use of these and all other securities of the British in this country in foreign exchange. These understandings were obtained at a time when dollar exchange was at a discount all over the neutral world. So far as this matter is concerned, therefore, there is no possible reason for keeping the agreements alive.

I am unequivocally of the opinion that the right of subrogation should be abandoned in toto as having outlived its usefulness if the Treasury has the legal power to abandon it. I am of the opinion that it has such power, but I should not wish to have you act upon that opinion without learning the view of Mr. Rathbone.

[s] R. C. L.

EXHIBIT No. 3106

DECEMBER 15, 1919.

[Not by wireless]

(Charge to Treasury Department.)

AMEMBASSY,
Paris:

For Rathbone from Glass. Treasury R–114. Mission's 4982, November 4, 2 p. m. Your R–35. Am strongly of opinion that continuance under present circumstances of our right of subrogation in respect of British securities in this country is undesirable. Existence of any such claim of ours against British securities here must greatly embarrass British financing in this country, thus adding important factor to depression of sterling exchange. This tends to weaken further all other exchanges, reduces Europe's power to purchase American products and adds to pressure on our Government here to induce it to incur commitments to help exchange sitution. Amount of security obtained by exercise of any such claim is insignificant compared with total amount of British indebtedness to Treasury and as reasons for which right of subrogation was accepted no longer exists, I am inclined to favor renouncing any claim upon securities as to which right of subrogation may exist. Inclined to believe that in view of form of claim to subrogation it can properly be terminated when so desired by so advising British. Amount of British obligations held by Treasury in respect of which right of subrogation exists is ninety-one million nine hundred thirty-one thousand dollars being amount of one year five and one-half per cent notes which matured February 1, 1918, paid out of our advances and one hundred ninety-two million eight hundred forty-two thousand dollars being amount of two year five per cent secured gold notes which matured September 1, 1918, so paid, total two hundred eighty-four million seven hundred seventy-three thousand dollars. Our understanding is that such right of subrogation is not connected with any particular British obligations held by us and that the obligations, the proceeds of which were used to meet the British maturities, are not identified and also that the British securities against which such right of subrogation may exist may be changed from time to time. Am inclined to believe that in these circumstances, right of subrogation is not in itself a security, but is rather a right to obtain security and that Treasury does not require authority from Congress in order to refrain from exercising that right any more than it needed such authority for not requiring security in first place in case of other loans. If it should be considered inadvisable to forego our right to obtain this security, think we should inform British that first amounts received in payment of British obligations held by us will be considered as applying toward amounts in respect of which we have right of subrogation and that right of subrogation will be released in proportionate amount of collateral as payments are made. Think that fifty-seven million one hundred sixty-four thousand dollars heretofore repaid may be treated as part of such payment. This would leave balance of two hundred twenty-seven million six hundred ten thousand dollars. Am strongly inclined to believe that simply advising British that we shall not make further claim upon their securities here is preferable to alternative plan which, in existing circumstances, appears to be only partial solution, but in view of your study of whole matter I shall appreciate full expression of your views.

(Sgd.) CARTER GLASS,
Secretary of the Treasury.

NK:JF.

EXHIBIT No. 3107

DECEMBER 17, 1919.

[Not by wireless]

(Charge to Treasury Department.)

AMEMBASSY,
Paris:

For Rathbone from Davis. Treasury R–118.

First. Our R–114 was prepared for the Secretary's signature a month ago and before the receipt of the rough draft of your letter of November 18 to Blackett. It was approved by the Secretary and dispatched because we thought it advisable to let you have our views and also obtain your opinion. If you share the same view regarding the advisability and the possibility of such procedure, you could no doubt use this concession to considerable advantage in settling all other pending matters with the British because, while this is a very unimportant concession from our standpoint, it will seem of considerable importance to the British.

Second. In view of importance of winding up all pending questions including reimbursements, about which I hope to cable you tomorrow, think it advisable to adopt liberal policy. Am inclined to agree to let French use for purchases here dollars received against francs for balance of army setoff, as indicated your R–115, rather than to apply such dollars toward cancellation of French obligations provided satisfactory agreement is made as to rate of exchange and other details. French insist they have depended on this and although the agreement you made with them gives us the right to apply such dollars against French obligations, I am under impression you had contemplated exercising such right only in case of necessity. French Government apparently worried because Parker left. Verge and Casenave came to see me to make representations similar to those made to you by Bloch. I told them Treasury could not recommend further concessions to War Department. They then indicated they might accept provided they could use the $19,000,000 balance for purchases. I gave them no encouragement because I desired to communicate with you and consider matter further.

/s/ NORMAN H. DAVIS,
Assistant Secretary of the Treasury.

EXHIBIT No. 3108

Green

PARIS, *Dated December 22, 1919,*
[Recd. 12:05 p. m.]

SECRETARY OF STATE,
Washington, D. C.

1865. December 22, 11 a. m. R–161. Secretary of the Treasury. Department's 9356, December 16th, your R–114. Departments 9365, December 18, 4 p. m., your R–118.

First. Lever's letter of last summer defines British obligation in respect to subrogated securities. Right of subrogation under this letter is for benefit only of United States advances to British for purpose of repayment of British secured debt. Clearly I think there has been no pledge with United States Treasury of subrogated securities but merely an agreement to pledge if called upon to do so.

My view is that Treasury has authority to waive right to avail of such agreement by British.

Second. I appreciate embarrassment to British and its consequent effect on general situation to the disadvantage of all if this right of Treasury is not waived. Accordingly I concur in your view that it should be waived.

Third. If right to subrogation is waived, I am inclined to view that in making arrangements for exchange of demand obligations for obligations with fixed dates of maturity, no distinction should be made between (A) British obligations given to Treasury for purpose of paying British secured debts and (B) obligations given by British for ordinary war purposes. Do you agree?

Fourth. If you agree with paragraph three above I will be prepared to make these concessions to British as well as concession regarding cereal year. See R–108, December 1 in endeavor to reach agreement on various points at issue between two Treasuries.

Fifth. Find great difficulty in determining when I should go to London to confer with Chancellor on these important questions between Treasuries as to which no agreement has been reached and as to which I believe no agreement will be reached until such discussion. In view of uncertainties here, limited personnel, and multitude of questions constantly arising for immediate action, I hesitate to leave Paris at this time. It may be that if treaty comes into force at an early date, as now seems probable, instructions I am awaiting as to attitude then to be reported by reparations section may make it possible for me to go to London at once.

Sixth. In view past arrangements think French should be permitted use of dollars received in balancing Army set off if settlement of that question is reached except and to extent, if any, you may determine in Washington to change same against last credit you gave France which we were under no obligation to provide.—RATHBONE.

WALLACE.

HG.

EXHIBIT No. 3109

12TH JANUARY, 1920.

DEAR MR. RATHBONE: I write again with reference to the suggestions for the release of the securities subrogated to the United States Treasury which were dealt with in my letter of the 8th November last. As I then stated, we have every reason to desire to obtain the release of securities not owned by the Treasury, and I would like to set before you certain of the considerations which are present to my mind.

(1) As you know the securities are not owned by the British Government but are merely loaned to the Government by their owners. Unless we are in a position to return the securities originally depoisted with us by the owners, or securities of the same description and to the same nominal amount, we are committed to payment of the value at the time of deposit plus 5% plus accrued interest. This involved a liability to provide £300,000,000[1] on or about 31st March 1922 and we should doubtless have to repay in addition any sums required to bring the deposit value up to the quotation then current, if that should in any case be the higher. Apart from the magnitude of the sum assurances have been given which in practice make it impossible for us to buy.

(2) The payment of the additional ½% granted to depositors by the Treasury which by itself involves a charge of nearly £1,600,000 per annum is made in the case of dollar securities at the current rate of exchange, so that the fall in the dollar exchange involves a substantial increase in the charge. This should in any case be avoided.

(3) The release of these securities would quite probably lead to their sale by their owners in view of the present rate of exchange, a proceeding which would not only materially assist us in restoring sterling to a level which would remove one of the worst of our difficulties, but also be useful to American export trade.

I should therefore be glad if you could make recommendations to the United States Treasury on the lines of my letter of the 8th November.

The figures in that letter can be improved to a considerable extent by the effect of the release of collateral consequent upon the payment off of our November maturity. The Chancellor of the Exchequer can now offer you the following Treasury owned securities: £6,000,000 Commonwealth of Australian Government; £3,964,242. 8. 4 Dominion of New Zealand; £4,500,000 Union of South

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[1] This includes, of course, all the deposited securities, but there are difficulties in dealing with a part only.

Africa 4½% 1925/45 in substitution for an equivalent amount of subrogated non-Treasury owned securities, and I further find that in addition to the $437,000 Treasury owned American bonds already intimated to you, we have now free a further $2,848,000 American shares and $1,600,000 American bonds. This gives us some $60,000,000 to offer in substitution, my original suggestion of $246,000,000 bonds of other European Allies being correspondingly reduced.

As regards Belgian Post Armistice securities I have had definite figures prepared and forwarded to Brussels. These show that we can call upon the Belgians at once for obligations to a value of £10,000,000, while obligations for a further £9,000,000 will come into our hands at an early date. I am however still awaiting agreement by the Belgians to the form of the obligation and the amounts involved.

Assuming however that no difficulty arises in connection therewith, I can rewrite the calculations in my letter of the 8th November as follows:

Total nominal value of subrogated securities	$344, 804, 082
On repayment of $40,000,000 there could be released as shown already	48, 432, 096
Leaving a balance still subrogated of	296, 371, 986
We leave subrogated *owned securities:*	
(1) as before	692, 000
and we add further owned securities:	
(2) Further American shares	2, 848, 000
(3) Further American bonds	1, 600, 000
(4) Dominion bonds face value as above £14,464,242. 8. 4 (say)	56, 000, 000
and for the balance the British Treasury proposes to substitute:	
(5) Post Armistice Belgian gold bonds face value £19,000,000 say at 4.866	92, 454, 000
(6) and bonds of other European Allies for the remainder (say)	142, 777, 986
Total	296, 371, 986

I feel that I may confidently look for your assistance in this matter, and that the figure now before you will enable you to give me a reply which will materially assist me in settling this particular problem.

I have the honour to be dear Mr. Rathbone,

Yours faithfully,

[s] Basil P. Blackett.

Exhibit No. 3110

Room 45, 7 Rue Tilsitt, Paris, *January 15, 1920.*

B. P. Blackett, Esq.,
c/o Sir John Bradbury,
26 Rue Bassano, Paris.

Dear Mr. Blackett: I have before me your letters of January 10 and January 12, the former relating to the advance to your Government for the purchase of Pitmann silver, and the second in regard to subrogated securities.

Regarding the Pittman silver I can only repeat that the proposal heretofore made by the British Treasury does not now appear to meet the situation and it is unacceptable. If you feel that you can not agree with the suggestions heretofore made by the United States Treasury to deal with this matter, then some other method must be devised, which will result in the repayment, in the near future, of the total amount advanced to your Government for Pittman silver purchases, both principal and interest. The United States Treasury does not object to receiving gold paid to it under the terms of the original arrangement and, indeed, would expect such payment unless a different method of dealing with the matter was arranged by mutual agreement. You will appreciate, however, that the gold payment provided by Lord Reading's letter would not dispose of the entire question which we are now discussing regarding this advance.

I note what you say in regard to the subrogated securities, and shall be glad to discuss that matter with you the end of this week, when, I understand, you are to be in Paris. An agreement on this matter should, I think, be a part of an agreement on the various matters which we have been discussing for the last few months.

I am sending this letter under cover to Sir John Bradbury, as I assume it would reach you quicker in that way than by forwarding to London.

I am, my dear Mr. Blackett,

Very truly yours,

[s] ALBERT RATHBONE.

EXHIBIT No. 3111

McADOO, COTTON & FRANKLIN
ATTORNEYS AT LAW
120 BROADWAY, NEW YORK

AT ST. LOUIS, *February 25, 1920.*

Hon. DAVID F. HOUSTON,
Secretary of the Treasury,
Washington, D. C.

MY DEAR MR. HOUSTON: While I was Secretary of the Treasury I advanced to the British Government three or four hundred million dollars with which it took up certain of its demand loans in this country which were secured by collateral. I required the British to turn over to the Treasury all of the collateral against these loans and to subrogate the United States to all of its rights in such collateral. Will you not kindly write me how much collateral we hold against British loans and what, as nearly as may be, is the market value or the estimated market value of such collateral. Will you also be good enough to give me a general outline of the character of the securities and in what countries they were issued?.

What do you estimate is the amount of the sinking fund or amortization requirement for our national debt for the fiscal year 1920?

With kindest regards, I am,

Cordially yours,

[s] W. G. McADOO.

EXHIBIT No. 3112

MARCH 3, 1920.

[Confidential]

MY DEAR McADOO: Your letter of the 25th ultimo, dated at St. Louis, has been received, in which you inquire concerning the collateral which the British Government had pledged for certain loans in this country and in respect to which the British Government agreed that the United States should have the right to be subrogated to the rights of the pledgees in consideration of assent by the United States to the use by the British Government of United States Treasury advances in paying off the loans.

On looking over the records, I find that the Treasury assented to the use by the British Government of Treasury advances in paying off $91,931,000 of the one-year 5½% secured loan convertible gold notes of the British Government which became due February 1, 1918, and that the Treasury became entitled to be subrogated to the rights of the pledgee in 91931/234837ths, or, say, 46/117ths of the securities pledged under the instrument of pledge dated February 1, 1917, of the Government of the United Kingdom of Great Britain and Ireland to the Bankers Trust Company securing $250,000,000 one-year and two-year 5½% secured loan convertible gold notes of the British Government. The fraction above mentioned was the proportion borne by the amount of the one-year 5½% notes paid by February 1, 1918, to wit, $91,931,000, to the sum of said last-mentioned amount, and the amount of $142,906,000 two-year 5½% notes which were unpaid at the opening of business on February 1, 1918—in all $234,837,000—the balance of said $250,000,000 one-year and two-year 5½% notes having previously been retired. I find that the Treasury assented to the use by the British Government of Treasury advances in paying off $192,842,000 of the two-year 5% secured loan gold notes of the British Government which became due September 1, 1918, and that the Treasury became entitled to be subrogated to the rights of the pledgee in the securities pledged under the instrument of pledge dated September 1, 1916, of the Government of the United Kingdom of Great Britain and Ireland to the Farmers Loan & Trust Company, securing $250,000,000 two-year 5% secured loan gold notes of the British Government. I do not find that the stocks and obligations in respect of which the Treasury received rights of subrogation as above mentioned were turned over to the Treasury. It appears that the rights of the Treasury in respect of the pledged collateral were defined in the correspondence with the British Government by an arrangement which contained an undertaking of the British Government to hold the collateral and deposit it when requested to do so by the Treasury and which permitted the British Government, but only with the consent of the Secretary of the Treasury, to substitute for any of the securities subject to the right of subrogation other securities of similar class and equal value. This was in accord with the rights of the British Government as provided in the instruments of pledge above mentioned. The original instruments of pledge contained lists of the pledged securities and of the unit value, but did not indicate the amount pledged of each security. It is not possible, therefore, to determine from the original instruments of pledge the total value of the pledged securities as estimated at the dates of the original instruments.

I judge from the records that the purpose of your transaction was to entitle the Treasury to be put in the same position respecting the collateral, whatever it might be, that the private lenders had been in. I do not find that the Treasury has obtained appraisals except in connection with substitutions for certain securities, which were a small part of the whole. In view of the large number of securities concerned, the obtaining of an appraisal would be a matter of considerable time. A considerable part of the collateral appears to consist of foreign securities. As the fluctuations of market values is further complicated by the great fluctuations in rates of exchange, the value of an appraisal would be only temporary; and, as the Treasury has not thus far required the deposit of the collateral, there does not appear to have been any reason for obtaining an appraisal.

I do not find in your report for the fiscal year 1918, which deals with foreign loan matters up to November 15, 1918, and therefore covers the period in which the transactions took place, any reference to the rights of the Treasury in respect of the collateral. It is my understanding that the matter was not at the time, or subsequently, disclosed either to Congress or to the public, and that it has not been disclosed in Great Britain. I concur in the view which I find from the records was that of Secretary Glass that, inasmuch as the reasons which led to our requiring the right of subrogation no longer exist and the amount of British obligations, in respect of which we hold the right, is a trifling fraction of our total British obligations, it is probably desirable not to exercise the right, but, on the contrary, to encourage the British to make the best immediate use they can of the securities. Negotiations are not pending between the Treasury and the British Treasury concerning this matter in connection with the negotiations for the exchange of the demand obligations of foreign governments held by the Treasury for long-time obligations and other matters looking toward a general settlement of matters outstanding between the two Treasuries.

As is stated in the annual report for 1919, the provisions for the sinking fund for the retirement of bonds and notes issued under the First, Second, Third, and Fourth Liberty Bond Acts and the Victory Liberty Loan Act come into operation on July 1, 1920. It is calculated that the operation of the provision will retire the funded war debt of the United States in the neighborhood of twenty-five years, except with respect of an amount equal to the loans to foreign governments outstanding on July 1, 1920.

With kindest regards, I am

Cordially yours,

[s] D. F. HOUSTON.

Honorable W. G. McADOO,
120 Broadway, New York City.

EXHIBIT No. 3113

TREASURY DEPARTMENT,
Washington, March 4, 1920.

Memorandum for the Secretary.

Attached is a proposed form of reply to an inquiry from Mr. McAdoo concerning the collateral in respect of which the Treasury became entitled to certain rights of subrogation as a result of assenting to the use by the British Government of United States Treasury advances for meeting at maturity certain loans contracted by the British Government in the United States before we entered the war.

For your information I attach copies of memoranda prepared by Mr. Leffingwell and me under dates of November 24 and November 21, respectively. There are also attached copies of Secretary Glass' cable no. 114 of December 15 to Mr. Rathbone, of my cable R–118 of December 17, and of Mr. Rathbone's cable 161 of December 22. Mr. Rathbone was subsequently authorized to make the concessions referred to by him in paragraph 4 of his cable. He has probably already incurred commitments to the British.

[*s*] N. H. D.

EXHIBIT No. 3114

[Not by wireless]

MARCH 13, 1920.
(Cipher.)

(Charge to Treasury Department.)

AMMISSION,
Paris.

For Rathbone from Houston. Treasury R–275.

First. It was impossible arrange meeting last week with Ways and Means Committee, but hope to settle this week pending questions relative to the postponement of interest. We are satisfied that the British cannot, at least without serious financial inconvenience which might react on us, meet their interest obligations for two or three years and have accordingly based our representations to the Ways and Means Committee on such conviction. While we do not consider it necessary or expedient to get a written admission on the part of the British Treasury that it cannot possibly meet such interest, we should have a direct written request for such postponement based upon such statements of necessity as they may deem compatible with their dignity. It was not originally our intention, nor as I understand your own, to ask for a written request. The extension of interest was first broached by them in conference in Paris last May or June, and a written request was not in our contemplation. However, in order to guard against misunderstanding here of Treasury position, it is considered that the Secretary should have a request for extension along the lines indicated. I cannot tell you definitely until after this meeting what assurances on the part of the British as to their inability to meet the interest would answer that purpose. Whatever letter they sent should, however, be prepared by them. The British have deliberately put on record in the same letter in which they ask for extension of interest their views regarding the advisability of a general cancellation of intergovernmental war debts. While we have replied declining to accept their invitation to consider that question, we should not be willing to base the postponement of interest on a letter from the British in which they also put on record their advocacy of a cancellation of war loans, a proposition which our reply has already dealt with.

Second. In this connection and referring to our R–114 from Glass and our R–163, paragraph 15, and your R–354, it is my understanding that no concession will be made concerning rights of subrogation in respect of British securities except as part of comprehensive settlement of all pending questions.

(Signed) D. F. HOUSTON,
Secretary of the Treasury.

NK:MFB

EXHIBIT No. 3115

[Not by wireless]

MAY 12, 1920.

(Treasury Department.)

AMEMBASSY,
London.

For Rathbone from Davis. Treasury no. R–365.

First. Our R–364 confirms our views, but was intended to assist your negotiations and not increase your difficulties or upset your plans. We are strongly of opinion that British are overplaying their position by reason of their belief that we will make large concession in order to conclude negotations. They may also feel that all bridges will be burned once a general settlement is concluded. We believe, therefore, that the delivery of a practical ultimatum, with strong presentation of our views, is most likely to bring them around. They must realize also that a failure to arrive at a settlement may prove equally, if not more, disadvantageous to them.

Second. The Secretary would not be justified or willing to release the right to subrogated securities until the general settlements are concluded; namely, the reimbursements, Pittman silver advances and the tentative agreement for the exchange of obligations and extension of interest. We are convinced that in view of British arrangements regarding Anglo-French loan, the release of these securities will be the strongest inducement to them to agree upon general settlements. If British are willing to reach an agreement they will do so in my judgment without any further concessions from us, and if they reach the conclusion that it is desirable not to reach an agreement, concessions will not induce them to do so. In either event I think they will be more apt now to reach an agreement if they come to the conclusion that our patience is exhausted.

Third. Department of State is considerably concerned at what they fear is deliberate policy adopted by British Government to exclude American nationals from exploitation on equal terms with others of oil and other properties in Mesopotamia, Palistine, and other territories over which jurisdiction was granted under treaty. My personal judgment is that if and when in connection with putting into effect agreement for exchange of obligations we stipulate as a condition equality of opportunity for our nationals, such stipulation should be confined to newly constituted states, mandatories, and territories which changed hands as a result of the war and treaty.

Fourth. Am cabling you separately about right to demand sterling bonds of small denominations and provisions for protection of gold supply.

(Signed) Norman H. Davis,
Assistant Secretary of the Treasury.

Exhibit No. 3116

(Cable message from the American Ambassador at Paris, May 21, 1920, 9 p. m., No. 1185

[Paraphrase]

Communicates a message from Rathbone to Leffingwell and Davis and the Secretary of the Treasury, R–529. References made to Department's 488, May 12, 5 p. m., your R–362, Department's 489, May 12, 6 p. m.—your R–364, Department's 490, May 12, 10 p. m.—your R–365, Department's 495, May 13, 5 p. m.—your R–368, Department's 494, May 13, 10 p. m.—your R–369, Department's 496, May 13, 6 p. m.— your R–370, Department's 503, May 15, 6 p. m.—your R–373.

* * * * * * *

Eleventh. See your R–370. Bonds for present delivery, you say, should not exceed the one million denomination. Great Britain may possible consent. There was a tentative agreement made under your approval (consult your April 7, 1920, R–321, my February 23, 1920, 354, paragraph 3). That the privilege granted us to call for bonds of lower figures should not begin until five years had elapsed, which would fix it at five years from the spring of 1919. For some time Blackett held out for ten years, but it was fixed at five, and he is now willing to fix January 1, 1924, as the date. He declines to set an earlier date, and, in my opinion, the past agreement being taken into consideration, I should not insist on an earlier date. The ground for the delay was that Great Britain, during a few years which constitute a critical period for her, should be enabled to arrange in the American markets for what she needed from the United States. I have been told in confidence that while arrangements have been made by Great Britain to pay her portion of the French-English loan, she is uneasy about France's share and apprehends that she might be called upon to pay another two hundred fifty million dollars, which would seriously affect her finances. Blackett understands perfectly that while, if we think best, we may not demand the bonds of smaller values, until after the date mentioned, yet our Treasury is absolutely entitled, as is any owner of bonds, to sell them at any time, or to dispose of certificates based on such bonds and representing interests in them. Blackett, however, was told by me that at present we were not disposed to sell, either by direct or indirect methods, in the near future, bonds given by Great Britain, and that, while I was not authorized to speak for any future Secretary of the Treasury nor even for the present Secretary, yet I thought that neither the bonds nor any interest therein would be sold, unless our own financial situation either compelled us so to act or made it advisable. If I can tell Blackett positively that our desire to have bonds of one million dollar value is not based on a desire to make it easier to deal with them before January 1, 1924, I feel assured that he will agree to furnish them as desired. As far as I am concerned, I fail to perceive much advantage in insisting on this point, as it would be just as easy to sell or dispose of certificates of interest in bonds of *large* [larger (?)] values as in bonds bearing the figure one million dollars. I shall, therefore, not insist on this point unless you instruct me to do so, as Great Britain decidedly protests against giving in the beginning bonds whose figures do *not* [do (?)] exceed each one million dollars.

Twelfth. From what I have reported above you will perceive that we have made no stipulation that certificates of interest in bonds in our possession will not be put out and sold in New York or at other places when we so desire.

Thirteenth. We are now discussing the form of the bond which differs in many points from the bond concerning which I reported on February 28 in my memorandum. The stipulations of the bond now being discussed I will briefly describe. The bond promises to pay principal and interest in gold, or, if the holder desires, in sterling, interest at five per cent, and it is in the main as previously described except that there is a postponement provided for the payment of interest accruing up to the spring of 1922, but this is to be paid up on dates for payments of interest in the spring of *1920* [1922 or some later date (?)], and the repayment of this is not be to strung out through the period of years mentioned in my message of January 19, 1920, R–227, paragraph 4.

[In the case of interest accruing prior to the spring of 1922 (?), the exchange rate is fixed for 30 days by the Federal Reserve Bank at an average of $4.84, the interest, which may then be postponed, to be paid on the next following date for payment of interest, three months having elapsed since the period of thirty days above mentioned (?).] But for the doubt which Great Britain feels (referred to above in paragraph 11) as to France's repayment of her half of the French and English loan, Great Britain would, in my opinion, be disposed to pay up back interest in the spring of 1921. Should you so desire, I believe I can induce Great Britain, if she finds herself able, to arrange to pay the accrued interest at a date still earlier than the one fixed if the United States will also agree to accept it on notice previously given that Great Britain intends to anticipate the payment. I doubt whether such an agreement is to be desired. The stipulation in the bond as to freedom from taxes is agreed to as provided in Mr. Leffingwell's message of November 1, 1919, R–29.

NOTE.—Questioned corrections enclosed in brackets.

EXHIBIT No. 3117

LETTER FROM THE SECRETARY OF THE TREASURY, DATED JUNE 19, 1923, TO THE BRITISH AMBASSADOR REGARDING THE DEPOSIT BY GREAT BRITAIN OF THE SO-CALLED SUBROGATED SECURITIES DESCRIBED IN LETTER BY SIR S. HARDMAN LEVER

JUNE 19, 1923.

The Right Honorable Sir AUCKLAND GEDDES,
Ambassador Extraordinary and Plenipotentiary,
The British Embassy, Washington, D. C.

MY DEAR MR. AMBASSADOR: In connection with the proposal dated the 18th of June, 1923, by His Britannic Majesty's Government to the Government of the United States of America regarding the funding of the debt of Great Britain to the United States, the acceptance of which I am handing you simultaneously herewith, I am writing to say that in accordance with the understanding reached at the time of the agreement for the settlement of the debt the United States Treasury will not require the deposit by Great Britain of any of the so-called subrogated securities described in the letter dated July 8, 1919, from Sir S. Hardman Lever to Mr. Albert Rathbone, then Assistant Secretary of the Treasury, or any securities which from time to time may have been substituted therefor.

I am, my dear Mr. Ambassador,
Very truly yours,

(Sgd.) A. W. MELLON,
Secretary of the Treasury, and Chairman
of the World War Foreign Debt Commission.

Approved.
(Signed) WARREN G. HARDING,
President.

JUNE 19, 1923.

The following memorandum is included in the record at the request of Mr. Leffingwell, see text, p. 9075:

MEMORANDUM ABOUT SUBROGATED SECURITIES AND OTHER SECURITIES

By R. C. LEFFINGWELL

Secretary McAdoo always refused to lend money to Great Britain to pay the 400 million dollar demand loan held by Morgans and a group of American banks. It was finally paid by the British Government out of its own resources without the use of any loans made by the United States Government or their proceeds. Therefore the United States had of course no right of subrogation with respect to the securities pledged for that loan.

Secretary McAdoo obtained the right to be subrogated to the position of the noteholders with respect to the collateral for two loans only, viz, about 285 millions dollars in the aggregate of British notes which matured February 1, 1918, and September 1, 1918. Of the five billions loaned to England and the ten billions loaned to all the Allies only two hundred and eighty-five millions ever had any right of subrogation.

Having regard to the international amenities and the British view that the right of subrogation if it became known would create an unfavorable impression in England and in the enemy countries, the Treasury never asked for the physical delivery of this collateral or served notice of lien; but that collateral, or approved substituted collateral, was in fact held subject to the United States Treasury's order and disposition until released by Secretary Mellon in connection with the British debt settlement negotiated by the World War Foreign Debt Commission.

The Treasury had contemplated the release of the subrogated securities in connection with the debt settlement which Mr. Rathbone was sent to Europe to effect in 1919–1920. The British broke off the negotiations at that time and there was no debt settlement then and no release of the subrogated securities by Secretary Glass or by Secretary Houston.

For the same reasons of policy already indicated, the Treasury did not make public the right of subrogation during the war period. Afterwards it was published as a matter of course although no great significance was attached to it. It was mentioned in the House of Commons by the Chancellor of the Exchequer in 1921, and Mr. Rathbone's abortive funding agreement with Great Britain (containing the provision for the release of the subrogated securities if that debt settlement had been accepted) was reported to the Senate Finance Committee in July 1921 by Assistant Secretary Wadsworth, in charge of foreign loans under Secretary Mellon, and was printed in full then.

The final release of the subrogated securities by Secretary Mellon was dated June 19, 1923. It was signed by him expressly both as Secretary of the Treasury and as Chairman of the World War Foreign Debt Commission. It was approved in writing on its face by the President of the United States. It was addressed to the British Ambassador. It was published in the Report of the Secretary of the Treasury for 1923, page 271, exhibit 47. It was stated to be written in connection with the proposal dated June 18, 1923, for the funding of the debt of Great Britain to the United States, and in accordance with the understanding reached at the time of the agreement for the settlement of the debt. It states that the United States will not require the deposit by Great Britain of any of the so-called subrogated securities described in the letter, dated July 8, 1919, from Sir Hardman Lever to Mr. Albert Rathbone, or any securities which from time to time may have been substituted therefor.

The Treasury never had any right of subrogation with respect to any other British securities than the foregoing, which was limited to $285,000,000.

The Treasury never demanded or obtained any right of subrogation with respect to the collateral securities for the two secured French loans which were paid by the French Government out of proceeds of loans of the United States Government, or any other French owned securities whatever.

So much for subrogation. The Treasury did however have the secondary right (which may have confused the uninformed) with respect to all other British owned and French owned securities in this country, to be consulted as to the disposition thereof. This secondary right to be consulted in regard to securities not the subject of subrogation was obtained by the United States Treasury for the protection of the American market against depreciation from inopportune liquidation of foreign owned American securities, and for the purpose of enabling the United States Treasury to indicate its views as to the most effective use which could be made of the American and neutral securities owned by Great Britain and France for the protection of the foreign exchanges and for the provision of funds in neutral countries, such as Argentine, Spain, Chile and Switzerland, where money was needed for the war requirements of the United States and the Allies. The burden of financing requirements in these countries to a greater or less extent must otherwise have fallen upon the United States Treasury, directly, or through loans to the Allies. It was highly advantageous to the United States Government to have these securities made available, in consultation with the United States, and used by the Allied Governments, who owned them, in ways which would facilitate the acquisition of foreign exchange for its own purposes by the United States and for the needs of the Allies. This secondary agreement never included the right of subrogation and never gave the United States Government any monetary interest or right with respect to the securities affected other than to be consulted as to the use which the Allied Governments, the owners thereof, should make of them in the general interest.

Soon after the fighting stopped, the United States Government discontinued loans to the Allies and stopped supporting the exchanges. By this time, the secondary right to be consulted in regard to securities had served its purpose, and it was agreed that it had been fulfilled.

The following memorandum is included in the record at the request of Mr. Leffingwell. See text, p. 9075.

Postscript about Subrogated Securities and Other British Securities

By R. C. Leffingwell

We have seen that the Secretary of the Treasury refused to lend Great Britain money to pay the $400,000,000 secured demand loan to Great Britain from J. P. Morgan & Co. and a group of sixty American banks; that he was obliged to permit Great Britain to apply to that loan $80,000,000 due from the United States Shipping Board to Great Britain for British owned ships requisitioned by the Shipping Board (which ships Great Britain wished to retain), because this was money due to Great Britain, not money lent to her; that he asked and was unable to obtain subrogation on account of the ship money; that he did obtain (A) the right to be subrogated to the rights of the pledgees of the collateral for the publicly owned British notes which matured February 1, and September 1, 1918, to the aggregate amount of $285,000,000, which were paid by Great Britain from the proceeds of United States loans to her; and (B) the secondary right to be consulted about the disposition of the securities for both the foregoing loans and the demand loan as well.

In the recent hearings hitherto unpublished Treasury documents have been read into the record on behalf of the Munitions Committee, and it is proper to quote them and to supplement previous discussion.

PRELIMINARY DISCUSSIONS

The general character of the discussion between the Secretary of the Treasury and the Chancellor of the Exchequer, and other British high officials, which began in April 1917 and continued into February 1918, about these matters has already been indicated. Enough has already been said about the preliminary discussions between the two Finance Ministers and their assistants in Washington, London and Paris. The important thing is not what the two Finance Ministers wanted and argued for, nor what their assistants thought and said about it. The important thing is, what did the Finance Ministers themselves, when all was said and done, agree to? What was the contract between the British Chancellor of the Exchequer and the American Secretary of the Treasury?

FINAL AGREEMENT

The essential features of that contract are contained in four short cables exchanged between the two principals, two messages just before and two messages just after the critical date, February 1, 1918, when the British maturity of $92,000,000 and the $80,000,000 ship money were paid, and $150,000,000 U. S. Treasury certificates were purchased by J. P. Morgan & Co. and a group of banks to finance these payments in part.

The critical moment had come. The nine months' debate must end. The British maturity must be met. Default and its consequences, in the very midst of the war, were unthinkable. All other arrangements had been made, but the question of subrogation was still unsettled.

First, the final messages exchanged between the Secretary and the Chancellor just before February 1st are important. On the basis of these two messages the February 1 maturity was met by the British Government out of loans made to it by the United States Government, and the Shipping Board's debt was paid by the United States Government to the British Government.

THE CONTRACT CABLES

The Chancellor's last meassage before February 1st was as follows:

"From Lever,
Jan. 28, 1918.

"I desire you will communicate following as a personal message from me to the Secretary of the Treasury.

"Lever has kept me fully informed as to progress of negotiations. I understand proposals to be as follows:

"1. Dollars reimbursed to us for requisitioned ships will be used for reduction of call loan.

"2. U. S. Treasury will make special advance up to amount required to enable us to meet February 1st maturity.

"3. I am not quite clear as to meaning of what I understand to be condition of two namely that Secretary of U. S. Treasury 'To be subrogated to rights of holders of February 1st maturity.' But I presume this means that securities now held in trust for holders of one year notes should be held for future as security for advance by U. S. Treasury.

"I so much appreciate assistance you are offering us in dealing with great anxiety of February 1st maturity that I feel difficulty in objecting to above condition if you think it will help you in meeting your political difficulties of which you alone can be judge. But I am afraid pledging of British owned securities to U. S. Treasury is bound to cause unfavorable comment in this country and that I shall have to face British Parliamentary crisis for consenting to a precedent for which it will be pointed out there is no parallel in our own dealings with Allies. I trust therefore that this aspect of matter will be borne in mind before a final decision is reached. Would it not be possible for you to nominate some Bank or group of banks who would nominally take over both loan and collateral making your own arrangements with banks so that transaction would be in effect on account of U. S. Treasury. This would obviate direct pledging of securities to U. S. Treasury and might thereby meet both your and my political difficulties.

/s/ A. BONAR LAW."

In the above message the Chancellor of the Exchequer made it plain that his understanding was that subrogation was only to be required for (2) the February 1st maturity and not for (1) the ship money. He also made it plain that his preoccupation was to "obviate direct pledging of securities to U. S. Treasury."

THE SECRETARY'S REPLY

The Secretary of the Treasury replied the following day as follows:

"Telegram Sent
Department of State, Washington,
January 29, 1918.

"TREASURY DEPARTMENT,
Amembassy, London.

"Urgent. Please deliver the following telegram from Secretary McAdoo to the British Chancellor the Exchequer and furnish a copy thereof to Crosby:

"Quote: I have received your personal message with respect to the February first maturity and the ship money. In view of what you say as to the situation which would be created in Great Britain if you should assent to my desire to be subrogated to the position of pledgees in respect to the collateral of these loans and in view of your statement that there is no parallel for such an arrangement in your own dealings with the Allies, I am constrained, though with great reluctance, to defer to your wishes in this matter, although I cannot alter my judgment that the course proposed by me is wise and right in aid of the general situation and would have been welcomed in this country as indicating a readiness on the part of Great Britain to deal not less liberally with the Government than with the banks, especially when the sole purpose fo the United States in suggesting that it have the use of such collateral is to promote and serve the common cause and for no other. The suggestion you make as to handling the transaction indirectly through a bank or group of banks is not feasible under our own laws. I have received from the British representatives here certain assurances in respect to the securities owned or controlled by the British Government. These assurances are more restricted in form than I had expected. I am confident that your Government will cooperate with me to the full extent in your power, whether in respect to securities owned or controlled by the British Treasury or otherwise, both here and elsewhere, in meeting the financial burdens in aid of the common cause, however and whenever these burdens may have their inception, and thereby facilitating the financing of the requirements of Great Britain and assisting in lightening the almost intolerable burden which the war is placing upon the Treasury of the United States. Unquote.

/s/ LANSING."

In the above message the Secretary of the Treasury assured the Chancellor of the Exchequer that (1) the sole purpose of the United States in suggesting subrogation was "to promote and serve the common cause," and that (2) in asking other assurances in regard to all British owned securities the Secretary had in mind "facilitating the financing of the requirements of Great Britain" and thus relieving the United States.

Thereupon the February 1st maturity and the ship money were paid, both without subrogation.

THE CHANCELLOR AGAIN

However, a few days later, on February 6, 1918, the Chancellor of the Exchequer sent the following message to the Secretary of the Treasury:

"I am directed to communicate to you the following personal message from Mr. Bonar Law, the Chancellor of the Exchequer:

"Further telegram received and conversation with Cravath shows that my telegram of January 30th[1] may have been misunderstood. I intended last paragraph to mean that I left myself entirely in your hands. The last thing I should have thought of would have been that I should make conditions as to financial assistance accorded us by the United States Government. You have to bear great burden of allied finance in the United States and you rightly relay on our cooperation in every way and to leave you a free hand as to proper solution of current problems.

"I am giving instructions that you are to be subrogated to lien of former lenders upon securities previously pledged to holders of one year notes and that these securities as well as other securities pledged to secure overdraft be dealt with according to your instructions.

Believe me,
My dear Mr. Secretary,
Yours very sincerely,
/s/ RICHARD CRAWFORD"

Thus, ex post facto, the Chancellor (1) conceded subrogation with regard to the securities for the one year notes; (2) withheld it with regard to the securities for the overdraft; and (3) granted the general assurances, which the Secretary desired (instead of the more limited and unsatisfactory assurances which Sir Hardman Lever had conceded) that all the securities located in America, whether for the one year notes or for the overdraft, should be dealt with in accordance with the Secretary's instructions.

THE SECRETARY ACCEPTS

On February 11th the Secretary of the Treasury replied as follows:

"I have received your further cable message through Sir Richard Crawford concerning the February 1st maturity. Permit me to express to you the assurance of my profound appreciation of your acceptance of my views and of the instructions which you have given that the United States Treasury be subrogated to the lien of former lenders upon securities previously pledged to holders of one year notes and that these securities as well as other securities pledged to secure overdraft be dealt with according to my instructions. I am sure that this action on your part will greatly strengthen my hands in the heavy task of making provisions for your and our financial needs."

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[1] *Sic.* 28th.

Thus the Secretary of the Treasury accepted the limited rights offered by the Chancellor of the Exchequer and renewed his assurance that the rights conceded to him would be used for the common cause.

MORE ORAL DISCUSSIONS

It is possible that the Chancellor's courteous general assurance that "I left myself entirely in your (the Secretary's) hands," may at first glance have revived the hope in the minds of some Treasury officials that the Chancellor would yet extend the right of subrogation to securities other than those pledged to secure the February 1st maturity to the extent of the ship money. If so the hope was promptly extinguished by Lord Reading upon his return to Washington. Lord Reading's talks with our Treasury and the talks of other British Treasury representatives with our Treasury resulted in a thorough understanding between the Secretary of the Treasury and his assistants on the one hand and the British Treasury and its representatives on the other hand. The essential features of the arrangement were fixed by the above quoted January-February, 1918, cables and the details worked out through the talks mentioned. The Lever-Rathbone letters of July 8, 1919, are in accordance therewith.

ONLY ONE AGREEMENT

There was only one agreement of subrogation, the essential features of which were defined in the above quoted cables. The July 8, 1919, agreement with Lever was the same agreement the details of which were arranged in accordance with oral talks of representatives of the two Treasuries. The essential features of the agreement of subrogation, and of the agreement with respect to the disposition of both subrogated and non-subrogated securities, were contained in the four messages above quoted. As to all essential features this agreement was clear, precise and unambiguous. It never was changed or varied. Six months later it was extended to the securities pledged to secure the notes maturing September 1, 1918. A year later out of abundant caution, it was spelled out in greater detail by Sir Hardman Lever's letter of July 8, 1919, and Mr. Rathbone's reply announcing that the secondary agreement in regard to non-subrogated securities had been fulfilled.

THE CONTRACT PROVIDED NO SUBROGATION FOR SHIP MONEY

This agreement contained in the above quoted messages between the Chancellor of the Exchequer and the Secretary of the Treasury makes it abundantly clear that there was to be (A) subrogation with respect to the securities for the one year notes but no subrogation with respect to the securities for the demand loan or overdraft; and that (B) both classes of securities, that is the securities pledged for the one year notes as well as the securities pledged for the demand loan or overdraft, were to be dealt with in accordance with the Secretary's instructions.

Both of the Chancellor's cables made it clear that the right of subrogation was limited to the February 1st maturity to the exclusion of the demand loan and the ship money. To suggest now that these cables gave the Treasury a lien to the extent of 80 million dollars upon the securities pledged to secure the demand loan is to write a contract for the parties eighteen years afterwards. To suggest that the British Government reported among other approved expenditures 40 million dollars for ships, and that the United States was entitled to subrogation on account of this 40 million dollars, is again to write a new contract for the parties eighteen years after the fact. There is not a suggestion of anything of the sort in the documents.

The effort of the Treasury to obtain subrogation in consequence of the payment of the ship money failed because the British refused it. The ship money had been promised to the demand loan. The ship money was money due from the United States. The debtor with respect to the ship money was the United States, the creditor was Great Britain. Subrogation means the right of one like a surety who pays the debt of another to step into that other's shoes in respect to the debtor's property. The United States was not paying the debt of another, but was paying its own debt.

The final agreement embodied in these four messages gave the Secretary of the Treasury subrogation with regard to the securities for the one year notes which he was lending Great Britain the money to pay, and it gave him command of the use of substantially all of the British collateral in this country, including that for the one year notes, for the protection of his own market and for the provision of neutral exchanges for the common cause.

THE AGPEEMENT OF SUBROGATION WAS EXECUTORY

The right of subrogation did not involve a present deposit of the collateral. It did not contemplate immediate physical possession or the filing of a lien or notice of claim. It was an executory agreement to make a deposit if and when required.

In the Chancellor's message of January 28th he indicated strongly his apprehension of the concequences of an actual pledge of the securities with the United States Treasury and suggested a method of avoiding that. In his reply of the 29th the Secretary rejected that method but said that his sole purpose was to aid the common cause. In his message of February 6th the Chancellor placed himself in the Secretary's hands and he said that he was giving instructions that the subrogated securities and the non-subrogated securities were to be dealt with in accordance with the Secretary's instructions. This ex post facto concession of the Chancellor, and the Secretary's own assurance that his sole purpose was to aid the common cause, put the Secretary under the strongest possible obligation not to embarrass the Chancellor or the British Government by availing of his right to give instructions in such a way as to provoke a parliamentary crisis in Great Britain, as the Secretary had been warned might happen if there was a physical pledge of the securities and the matter became public.

The agreement of subrogation makes it abundantly clear that what was in contemplation was an executory agreement and that the securities, subrogated and non-subrogated, were to be dealt with according to the Secretary's instructions for the common good of both countries. This was wholly inconsistent with any suggestion of a requirement of an immediate physical pledge and delivery of the securities or the filing of a notice of lien. The securities were to be used in the common case, not locked up in Treasury vaults.

CONTEMPORANEOUS CONSTRUCTION

This was the contemporaneous construction placed upon the agreement almost immediately by Lord Reading and Secretary McAdoo. Lord Reading had been in London during the critical discussion, and returned at once to Washington. Within the month, on February 27, 1918, Lord Reading wrote the Secretary of the Treasury that the British Treasury was negotiating for a loan in Holland and asked whether the Secretary saw any objection to the proposed use as security for the loan of some of the securities controlled by the British Treasury and then in the United States. Secretary McAdoo on March 4th replied asking for a list of the securities. Mr. Rathbone on March 5th wrote Sir Hardman Lever acknowledging receipt of a summary of the securities released by the repayment on February 1st of the one year notes, and asked for some supplemental information with regard to the securities for the call loan or overdraft. On March 12th Secretary McAdoo wrote Lord Reading saying that he did not wish to delay the negotiations with regard to the Holland loan and that he was willing that about 50 million dollars worth of securities held by or for the British Government in the United States be used to secure this loan. The Secretary said he would like to know just which securities it was desired to use for the purpose, but if the matter was pressing he would leave it to Lord Reading to decide. On March 14th Mr. Rathbone acknowledged to Sir Hardman Lever receipt of lists of securities, the one headed British Government Treasury Account Securities sold December 7, 1917, to March 11, 1918, inclusive, the other headed British Government Loaned Securities Account Scheme B, securities delivered November 1, 1917, to March 11, 1919, and made some inquiries about them.

There was here no question of delivery of securities by or to the United States Treasury but only a request for a list of them. There was prompt approval of their use for British needs.

Again, in asking the President in August for approval of a credit in favor of Great Britain to pay the British maturity of September 1, 1918, the Secretary of the Treasury gave a general description of the collateral for these maturing notes and said he had arranged to be subrogated to the collateral and that when opportunity offered this collateral might be disposed of to provide for additional British expenditure here, thus reducing the amount of our future advances, or in reimbursement of our advances already made, and to obtain credits in Chile and the Argentine.

All this makes it evident that Secretary McAdoo then had in mind nothing remotely approaching an immediate pledge or deposit or notice of lien, but merely that the securities, subrogated and non-subrogated, were to be disposed of for the common cause, perhaps to provide for approved British expenditure, or perhaps to provide foreign exchange.

THE SECRETARY'S RIGHT TO GIVE INSTRUCTIONS

It should go without saying that the right to have both subrogated and non-subrogated securities dealt with in accordance with the Secretary's instructions did not confer upon the Secretary the right to appropriate these securities of Great Britain to the use of the Treasury of the United States.

Of course when the Secretary cabled the Chancellor on January 29th that his sole purpose in suggesting that he have the use of the collateral was to promote and serve the common cause and no other, the Secretary meant exactly what he said. Of course when the Chancellor replied that he put himself in Secretary McAdoo's hands and that he had given instructions that the subrogated and the non-subrogated securities both should be dealt with in accordance with Secretary McAdoo's instructions, he did so in reliance on that promise of the Secretary that his sole purpose was to aid the common cause. And of course when the Secretary replied on February 11th that the Chancellor's concession would greatly strengthen his, the Secretary's, hands in making provision for British and American financial needs, the Secretary meant exactly what he said.

In view of all this and the Chancellor's warning that an actual pledge of the securities with the United States Treasury might provoke a parliamentary crisis the Secretary of the Treasury could not at any time during the duration of the war demand the physical pledge of the securities with the United States Treasury. The Chancellor had put himself in Secretary McAdoo's hands with the full explanation of the consequences of such action. Furthermore the very fact of taking such action would have put it beyond the power of Secretary McAdoo to use the securities, subrogated and non-subrogated, for the common cause. That was the sole purpose for which the Secretary had asked subrogation and had asked the secondary agreement with regard to the use of the securities. The physical pledge of the securities with the Treasury would have frustrated the very object and sole purpose of the Secretary.

TREASURY'S ARRANGEMENTS WERE EFFECTIVE

The arrangements which the Secretary of the Treasury made with the Chancellor of the Exchequer were in fact sufficient and effective. British owned securities were used by the British Government in consultation with the United States Treasury for approved purposes, to provide neutral exchange, to obtain loans in Holland and Switzerland, etc., and so to reduce the demands of the British Government on the American Government for loans. Liquidation of the American securities owned by the British Government, which had been found detrimental to our bond market and to the flotation of our Liberty Loan, was stopped altogether for six months, from February to August 1918, and then only continued as permitted by the United States Treasury.

No payments on account of the principal of the loans in regard to which the United States Treasury had the right of subrogation were made before the 1923 debt settlement. The subrogated securities or approved substitutes in fact remained subject to the agreement of subrogation through June 1920 when Mr. Rathbone's and my connection with the Treasury terminated. No doubt they so remained also until they were released about three years later by the World War Foreign Debt Commission in connection with the debt settlement of 1923. Indeed it was stated at the Hearing on behalf of the Munitions Committee that 314 million dollars was the amount of subrogated securities released at the time of the debt settlement. This left an ample margin of collateral over and above the amount of the debt on account of which the United States Treasury was entitled to be subrogated, which was about 285 million dollars. So the right of subrogation remained unimpaired to the date of settlement.

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